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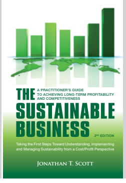
The Entrepreneur's Guide to Building a Successful Business

Experience and advice from hundreds of small business owners /operators in fourteen countries

by Jonathan T. Scott



by the author of
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The Entrepreneur’s Guide to Building a Successful Business

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Introduction

> *Never have so many people had so much access to so much knowledge and yet have been so resistant to learning anything.*
>
> Tom Nichols

Don't be fooled by the term '*small-to-midsize enterprise*'. Almost every business enterprise begins small (i.e.: employing one to five people). Indeed, it is important to note that 90% of the world's small-to-midsize enterprises (SME's) hire a similar percentage of the world's working population; which means that much of the world's economy is carried on the back of small-to-midsize businesses. This is why, year after year, the *Organization for Economic Co-Operation and Development* (OECD, 2015) confidently states that SME's are, and will continue to be, a main source of new and existing jobs worldwide.

Additionally, SME's tend to be more innovative in knowledge-intensive services and new technologies and they make-up the bulk of the tourism trade (the world's largest industry) by constituting up to 97% of the world's total number of leisure enterprises. It is therefore hardly surprising that the economic strength of almost every nation rests firmly on the health of its small-to-midsize businesses.

Although definitions vary, firms that hire one to ten people are often classified as *micro-businesses*, those that employ up to 50 people are known as *small businesses*, and the ones that grow to employ 100-200 individuals are usually called *mid-sized*.

Unfortunately, despite their economic impact, SME's are all-too-often over-looked by academia because (understandably) there's little or no money in researching small firms that don't, and can't, provide multimillion-dollar donations and research grants. It's simply more profitable and prestigious for cash-hungry business schools to study large corporations as well as high-stake 'unicorn' ventures and other expensive, attention-generating startups… which brings us to *why* this book is given away for free and what it's designed to do.

Because most people will experience, or can expect to experience, a period of self-employment at some point in their lives before they retire, and because small-to-midsize businesses are so vital to local, regional and world-wide economic prosperity, we believe that everyone who wants to engage in personal growth through business ownership should have access to basic, practical insight from a skills-building, application perspective. This includes the inexperienced and experienced, as well as the unemployed and the underemployed. *The Entrepreneur's Guide to Building a Successful Business* is therefore made available as a free download by EFMD as part of its Sustainable Business portfolio of supplemental business education and training materials.

The first edition of *The Entrepreneur's Guide to Building a Successful Business* (published in 2009) was the culmination of a four-year study that examined numerous success and failure factors involved in running a small business. This new updated second edition enriches the original text with six additional months of research, writing, and amendments. Most of the businesses that were examined employ less than 12 people and are located in fourteen countries (Australia, Belarus, Belgium, Canada, Denmark, France, Germany, the Netherlands, Norway, Poland, Russia, South Africa, the United Kingdom, and the United States). Perimeters were set by ensuring that each enterprise had been in business for at least five years. All in all, entrepreneurs in 224 businesses gave over 2,000 responses to 22 written questions. Over 150 additional businesses were studied via secondary sources. Questions included: *What makes your business thrive?*, *What contributed to the downfall of your previous business (if you had one)?, and What do you think goes on in the businesses of your rivals?* (i.e.: *Why do you think you're doing better than your competitors?*). Countless follow up questions and scores of interviews ensued. The patterns that emerged became the crux of this book.

To avoid technical jargon, professorial language, and the often solipsistic research inherent in academic business books, we endeavoured to keep the information readable, concise, necessary and practitioner-oriented. This was done by asking business students and business practitioners across the globe to list the styles and features that they admire most in business texts as well as what they wanted to see in this one. Suggestions poured in from 22 countries (Belarus, Canada, China, Denmark, England, France, Germany, Greece, Italy, Jordan, Kenya, Kuwait, the Netherlands, Nigeria, Peru, Russia, Scotland, Spain, Sweden, Ukraine, the United States, and Vietnam). All in all, over 563 replies were received – and here's what was most often said:

- the text should be written with solid authenticity (i.e.: with the views of practitioners),
- there should be clearly labeled chapter and paragraph headings,
- the text should consist of brief explanations and easy-to-understand diagrams,
- only simple, clear, straightforward, and concise language and prose (no academic language) should be used,
- a balance between theory and practice (with an emphasis on solutions) should be maintained,
- a 'refresher' section should be included that explains business and managerial basics,
- there should be a proliferation of true-life case studies and interesting stories to highlight each topic,
- as a whole, the style should reflect a great deal of 'positive energy' and be written in a motivational style.

In effect, *The Entrepreneur's Guide to Building a Successful Business* was written with the help of entrepreneurs for entrepreneurs. Some of the information presented goes back over 100-years (entrepreneurs absolutely love historical business stories) and some of the advice may seem contradictory, but this is to be expected when hundreds of practitioners give their input. At the end of the day, *The Entrepreneur's Guide to Building a Successful Business* is meant to:

- be helpful, enabling, and informative – to promote business success, whet the appetite of students and practitioners and provide further interest in the study of business and entrepreneurship,
- supplement other books on business and entrepreneurship (because the information presented herein is certainly not definitive),
- approach the study of entrepreneurship and business development in a practical and understandable manner, and,
- avoid unreadable prose, unverifiable trends, and overly theoretical material.

We hope we have succeeded.

Note: If your organization or institute would like to voluntarily translate this book into another language for the purpose of enabling economic growth in your country or region, please contact jtscott@cipsfoundation.com to obtain permission. In addition to other benefits, we allow translators to sell printed copies of their translations and keep at least 95% of the proceeds (a complete digital copy of all translations, however, must be sent to EFMD so that we can freely distribute it). During the translation process, we encourage knowledgeable contributors to add local/national case studies and other regional information to enhance and enrich the text.

PART I
PREPARATION

Chapter 1
Do You Have What It Takes?

'The man who wins is the man who works,
Who neither labor nor trouble shirks;
Who uses his head, his hands, his eyes –
The man who wins is the man who tries.'

Conrad Hilton

It's nine-thirty on a Friday night and I'm staring at 700 brochures I spent the last six weeks designing and writing. Realistically I need 2,000 more, but I don't want to think about that right now. The envelopes they will be stuffed into are strewn over a nearby couch. The names and addresses of the brochure destinations were obtained from countless hours of Internet and library searches conducted over the course of four months. As I write this, two thoughts come to mind: I cannot remember the last time I had a day off and I have no idea if this direct-mail marketing campaign will pay off. Although the research I did suggests that the potential customers I'm targeting do respond to this approach (see Chapters 5 and 6), everything I send out may very well be thrown into the garbage by the recipient. Equally as distressing is that after going over the numbers dozens of times I don't want to consider, yet again, how much this is costing me. So instead I plow on. Welcome to the world of entrepreneurship, where there is no guarantee that the starter pistol will ever go off, where there is never a finish line – and where just starting the process is a full-time job.

Here's the bit that's most difficult to articulate: and therein lies the beauty in all of this. As President John F. Kennedy once said, we don't choose to go to the moon because it's easy - we go because it's hard. So it is with entrepreneurship. Starting (and running) a commercial enterprise requires developing new skills, seizing the initiative, rising while others sleep, working evenings and weekends and holidays, and taking educated risks. In addition, unique and sometimes conflicting qualities and character traits - often considered inappropriate in refined social settings - are also required, such as a rabid hatred of losing and a bit of obsessive behavior. Simply put, being goal-oriented and having a bit of business talent aren't enough on their own because, as the saying goes, talent without discipline is a like an octopus on roller-skates. Knowing how to apply your strengths, weaknesses, and differences in an appropriate context is also crucial – as is having the guts to do things never before attempted even though you're a bit reticent or afraid. The bottom line is that most business success is not dependent on luck - unless luck is defined as preparation meeting opportunity (according to some surveys, succeeding as an entrepreneur often means toiling 65 to 85 hours a week or more [also, see the chart on page 119, How Small Business Owners/Managers Spend Their Time]). But first things first. Whether you want to start an enterprise from scratch or try something new in an existing organization, before the hard work and risk-taking commence you must first be ready and willing to face the unknown with the best that humanity has to offer – the human spirit. If you don't fire yourself up and use your enthusiasm to make thorough preparations there's a good chance that your proposed business project will be sunk before it begins. The following page reveals many of the qualities and attributes that successful entrepreneurs often possess, but paradoxically do not always need to have.

Stage I: The Right Attitude

Every endeavor, large or small, benefits from a proper mind-set. As Henry Ford once said, whether you believe you can, or whether you believe you can't, you're absolutely right. In the business world, this means having or developing above-average levels of the following before beginning a business endeavor:

- *Drive and determination*. Including initiative, high energy levels, and a hearty appetite for achievement.
- *Ambition*. Harboring a fierce desire to succeed as well as forming a substantial, realistic, and personal definition of exactly what success is.
- *Intelligence*. The desire and aptitude to gather, interpret, and prioritize information.
- *Commercial intellect*. The motivation and know-how to scan business environments for weaknesses, threats, and opportunities.
- *Confidence*. The courage to be decisive and assured (not arrogant), with your abilities.
- *Curiosity*. An innate interest in the world and how it works.
- *The will to win*. The determination to come out on top rather than just participate. (For example, consider the thousands of entrants that enter big city marathons. Only a dozen or so can expect to win. Most are happy to just finish the course. In business, you must enter to win.)

Stage II: Implementation (Putting Plans into Action)

Winning as an entrepreneur is based on being a doer, not a dreamer. This means having the guts to leave the comfort of familiar surroundings and march off into the unknown with a well-honed idea and a keen sense of adventure. Prerequisites for these attributes include:

- *Communication skills*. The aptitude to state what is needed clearly and concisely.
- *Motivation*. A willingness to work long hours whether you feel like it or not.
- *Self-discipline*. The ability to rein-in temptation or excess.
- *Persuasiveness*. The ability to convince others and inspire them to do your bidding.
- *Speed and Agility*. The ability to respond intelligently to situations both rapidly and effectively.

Stage III: Diligence (Going the Distance)

Developing the fortitude and determination to stay on track is probably the most difficult of all entrepreneurial abilities. Launching and running a business is time-consuming, life-consuming, and full of distractions and setbacks. Surviving the process with grace requires:

- *Resilience*. The capacity to learn from mistakes, brush off adversity and pull yourself together after suffering through the inevitable losses that running a business involves.
- *Perseverance*. Steadfastness and consistency (not stubbornness) with goals.
- *Humility*. Maintaining a genuine conviction to serve others.
- *Reliability*. Being responsible, accountable, and available.
- *Temperament*. Keeping a sense of calm, balance, and proportion no matter what happens.
- *Endurance*. The ability to bear the ups and downs of a working day with patience and fortitude – and come back for more.
- *Flexibility*. Greeting the forces of change and being willing to adapt.
- *Understanding*. Accepting that people are different and being able to empathize with them.

The Four Main Fears of Entrepreneurship

Obviously, the number of qualities and attributes needed to succeed in business is quite extensive. So does that mean that an entrepreneur needs to be a superhero to triumph in the business world?

Absolutely not. Few people are born with all the marvelous abilities that are needed to succeed in life. Yet successful business owners appear to get around their shortcomings by learning as they go, admitting their frailties, and shoring up their weaknesses – a process that helps overcome their fears. Fear is a common emotion that often manifests itself into excuses, procrastination, or inaction. Indeed, many psychologists say that fear is the root cause of most human problems. Listed below are four of the most common fears associated with starting a business.

1. *Age*. Exactly what age is too old or too young to run a business? Years ago, the owner of a sporting goods store in the USA celebrated his 100th birthday (he opened his enterprise in 1933). He was only working four hours a day, but he was still working, and introducing new products, and beating his competitors. Colonel Sanders, the man who invented *Kentucky Fried Chicken*, began selling his secret formula to franchisees at the age of 64. Ray Kroc, a malt-shake machine salesman from Illinois, bought four California hamburger restaurants when he was 52 years old and re-tooled them into the *McDonald's* empire. And so it goes as the number of entrepreneurs over the age of 50 is expected to rise dramatically according to industry experts.

   At the other end of the scale, Michael Dell, the founder of *Dell Computer,* began his first business at the age of 13. By the time he turned 19, the computer parts business he ran out of his college dorm room was grossing $80,000 per month. Not to be outdone, Bill Gates started Microsoft at the tender age of 19. And today, millennials are starting businesses at almost twice the rate of their older peers (Petrilla 2016). The overall message is that age is not a determinant factor when it comes to starting and running a business. Attitude, courage, and action are far more important.

2. *Lack of Money*. There's no doubt that having lots of capital makes starting a business somewhat easier. Yet a sizeable number of successful practitioners steadfastly believe that having a better-than-average amount of start-up capital has little to do with overall success. Indeed, quite a few hard-nosed entrepreneurs claim that it's actually beneficial to create a business with as little money as possible. Their belief is that too many individuals, when starting with a pile of cash, waste it on things they don't need – an office, a secretary, expensive computer equipment, and so on. On the other hand, having a small amount of startup cash teaches frugality and efficiency. If you're not convinced by this argument consider the hundreds of thousands of folks around the world who began their businesses with little more than chump change and a burning desire to see their idea bear fruit. For example, *Disney*, *Apple*, *Hewlett Packard*, and the *Mattel* toy company, all began life in garages. Seattle based teenager Jim Casey founded *UPS* with $100, two bicycles, one telephone and six employees. The *Nike Corporation* began in 1964 when Phil Knight and Bill Bowerman each invested $300 in a shipment of athletic shoes and sold them out of a car at track meets. Eighteen-year-old Joyce C. Hall started the *Hallmark* greeting card company with an armful of postcards he kept in two shoeboxes. Thomas Monaghan, who spent his early life in and out of orphanages and foster homes (and was kicked out of everything afterward from a Catholic seminary to the Marine Corps) started *Dominos Pizza* by turning a bankrupt pizza parlor - half of which he traded for his Volkswagen Beetle - into the USA's number one pizza delivery service. And the *Marriott Hotel* chain began its life as a humble root beer stand in 1927. Simply put (as the old saying goes), success in business is usually based on 10% capital and 90% guts. Stated another way, people that can't make money without money usually won't make money with money. According to successful business practitioners, mind power, diligence, and passion are far more influential.

3. *Fear of Rejection*. Most successful business owners readily admit that the path to prosperity is paved with rejection. Indeed, many hard-core entrepreneurs state quite openly that they often fail twice as much as others. So why do they end up succeeding? Because they try more. Instead of giving up, successful business owners learn to deal with failure and adversity and then move on. Take for example Bernard Marcus and Arthur Blank who, in 1978, joined forces with co-worker Ronald Brill and founded *Home Depot* – after all three men had lost their jobs in a corporate buyout. Or consider King C. Gillette, the inventor of the safety razor, who suffered six years of humiliating rejection from companies, investors, and toolmakers while they laughed out loud at his innovative new product. When King eventually decided to produce his invention himself, sales rose at a rate of 1,000% annually! The story of Ewing Kauffman provides another good example of how successful entrepreneurs rebound from rejection. Shortly after WWII, Kauffman was fired from his job as a salesman because his commissions exceeded the president's salary at the company where he worked. Undaunted, he descended into his basement and began making calcium pills from oyster shells. Years later, after capturing forty percent of the $100-million calcium supplement market, he sold his company to *Dow Chemical* for a fortune.

   Such bounce-back stories are not the stuff of old fashioned motivational stories. Indeed, millennials seem to be more prone than their elders to learn from failure, brush it off, and then parlay it into victory (Petrilla, 2016). The lesson here is that winning often lies in the mind. Success to those with the perseverance to stay in the game is usually nothing more than failure turned inside out.

4. *Lack of Education or Experience*. There is evidence that suggests a college education does not guarantee business success. Indeed, it sometimes appears otherwise. Steven Jobs and Stephen Wozniak, for example, founded *Apple Computer* after dropping out of college. Neither one of them had any entrepreneurial experience. Michael Dell, the multi-millionaire founder of *Dell Computer*, is also a college dropout. The same goes for Ted Waitt, who, after quitting school, underwent nine months of on-the-job training at a computer company only to leave and start *Gateway 2000*. Ten years later, his salary exceeded $500,000 per annum. John Bond, former chairman of *HSBC* (one of the world's largest banks), also never went to university.

   Still not convinced? Then consider the story of Ian Leopold, whose college professor failed him because of the unrealistic business plan he submitted in class. By sticking to his instincts, Leopold turned a $48 investment into $4-million in ten years with the very same plan (writing university guidebooks).

   And in the last years of her life, multimillionaire Anita Roddick, founder of *The Body Shop*, advised entrepreneurs to 'stay away from business schools'. Her belief was that business schools focus too much on the financial side of business and ignore the all-important human element.

   Of course this does not mean that education and experience are not needed to start and run a business. The following statement was relayed to me several years ago by a successful entrepreneur in France: 'I didn't learn any ground-breaking secrets in business school,' he said. 'Most of what I've learned I experienced on the job. Yet one thing I've noticed over the years is that no matter where business studies are taught, the folks who need this information the most are usually nowhere to be found.' His point is that there's no shame in not knowing everything there is to know about running a business. There is only shame in not admitting it and ignoring the need to improve.

The Top 10 Myths of Entrepreneurship

Of course fear isn't the only obstacle that stands in the way of entrepreneurs. Countless myths also block the first crucial steps. Following is what Scott Shane, professor of entrepreneurship at *Case Western University*, says are the ten greatest misconceptions of entrepreneurship.

1. *A lot of money is needed to finance a start-up*. Contrary to what most people believe, 10-years ago a typical start-up in the USA required about $25,000 to begin. How is it possible to start a business with such a small amount of money? Successful entrepreneurs do whatever they can to keep costs low. They borrow equipment instead of paying for it. They rent instead of buying. And they turn fixed costs into variable costs by doing things such as paying their employees commission instead of salaries.
2. *Venture Capitalists are a good source for start-up money*. Not unless the business is in the computer or biotech industries. In the USA, venture capitalists only fund around 3,000 companies every year (one-third of which are in the start-up stage) with around 81% of all venture capital dollars going toward businesses that deal in computer hardware (and software), semiconductors, communication, and biotechnology. In fact, the odds that a start-up will receive money from a venture capitalist are about one in 4,000 (which is worse than the odds of dying from a fall while taking a shower).
3. *Most business angels (i*.e.: a person who enjoys giving money to someone else so that he or she can start a business) *are rich.* If rich means being a person with more than $1-million, or an annual income of $200,000 to $300,000, then the answer is no. Almost three-quarters of the people that provide capital to fund someone else's start-up don't meet SEC accreditation requirements. On the contrary, 32% have an income of $40,000 a year or less and 17% have negative net worth.
4. *Start-ups can't be financed with debt*. Actually, debt is more common than equity. According to the *Federal Reserve Survey of Small Business Finances*, 53% of finances for new businesses that are two years old or younger come from borrowed money; 47% comes from equity.
5. *Banks don't lend money to start-ups.* According to *Federal Reserve* data, banks account for 16% of all the financing provided to companies that are two years old or younger. This is 3% higher than the next highest source – trade creditors – and a bit higher than the most common capital sources everyone talks about: friends, family, business angels, venture capitalists, strategic investors, and government agencies.
6. *Most entrepreneurs start their businesses in attractive industries.* Unfortunately, the opposite is true. Most entrepreneurs head straight for the worst industries when contemplating a start-up. For example, in the United States the correlation between the number of entrepreneurs starting businesses in an industry and the number of companies failing in the same industry is 0.77. Put another way, this means that most entrepreneurs choose industries in which they're most likely to fail.
7. *The growth of a start-up requires more entrepreneurial talent than the type of business chosen*. Perhaps not surprisingly, the industry in which an entrepreneur chooses to start his or her company has an enormous influence on its growth. Between the years 1996-2006, around 4.2% of all start-ups in the computer and office equipment industry made the *Inc 500* list of the fastest growing private companies in the USA. The percentage of growing companies in the hotel and motel industry averaged around 0.005. Eating and drinking establishments averaged 0.007%. This means that the odds of making the *Inc 500* list were 840 times greater for a computer company rather than a hotel.
8. *Most entrepreneurs are financially successful.* That depends on your definition of success. While it's true that small businesses are responsible for the majority of wealth in most countries, the wealth these businesses create is unevenly distributed and it spreads rather thinly. For example,

the typical profit for an owner-managed business is $39,000 per year and only the top 10% of entrepreneurs earn more money than their employees. Put another way, the typical entrepreneur almost always earns less money than he or she would earn working for someone else.

9. *A large number of start-ups achieve the sales growth projections that equity investors are looking for*. Absolutely not. Of the 590,000 or so new businesses founded in the USA every year less than 200 reach the $100-million in sales in six years that most venture capitalists require. Around 500 businesses reach the $50-million in sales that top-end business angels are seeking, and only about 9,500 companies reach a target of $5-million in the same six year period.
10. *Starting a business is easy*. It's unclear why anyone would believe this to be true – particularly when one takes into account that the majority of people who start a business end up failing. In the USA, for example, seven years after beginning the start-up process, only one-third of successful entrepreneurs can boast about having a positive cash flow greater than their salary and expenses for more than three consecutive months. (Shane, 2010)

Overcoming Negativity

Perhaps now it's easy to understand why so many people forgo the notion of starting their own business and choose to work for someone else instead. Simply put, building a business is hard work and the odds of succeeding are harsh. That being said, if starting a business seems beyond your reach because the people surrounding you - not the facts - are filling your head with negative thoughts, the following advice from experienced business practitioners may be worth considering:

- as a rule most people in life will tell you what you *cannot* do rather than what you can do.
- just because someone doesn't believe in you doesn't mean you can't succeed.
- no one can make you feel inferior without your consent.
- your past does not have to contaminate your future.
- where you come from isn't important, it's where you're going that counts.
- if you focus on what you want, instead of what others deny you, you'll have a much greater chance of succeeding.
- fear of the unknown (and the known) can be controlled once it's admitted.

Developing a Healthy Definition of Success

Still afraid of taking a risk and stepping out into the unknown? You're not alone. It's not uncommon for even experienced entrepreneurs to measure themselves against unreasonable standards and see themselves falling short. For example, a successful entrepreneur in the UK once admitted to me that he thought his business was a failure. This was unusual because there was no doubt in my mind (or anyone else's) that he was doing quite well.

'How long have you been in business?' I asked.

'Sixteen years,' he replied.

'And how many similar businesses around here have come and gone during that time?'
'Seven,' he answered.

'What about your salary? Do you make a good living?'

'Oh yes,' he replied. 'I've got a nice car, I live in one of the better parts of town, and I usually take two vacations a year.'

'Tell me about your employees. Do they leave every few months or do they stay with you?'

'All of them have been with me for years.'

'I'm sorry,' I said, 'maybe I'm missing something. Where do you think you're going wrong?'

He got the point. He was confusing his desire to do better with failure. Like so many people he saw other entrepreneurs who had more of something than he did and he immediately assumed that he was losing. The message? Be reasonable with your expectations and learn to view your business goals as a staircase rather than a one-chance shot to the moon. This doesn't mean settling for less, it means being realistic and progressive when it comes to your aspirations. As one entrepreneur I interviewed put it, 'Tell your readers that the fear and insecurity of running a business never ends. Indeed, the very concept of entrepreneurship involves overcoming the daily nagging dread that even after serving a satisfied customer we are, in effect, unemployed until the next customer can be secured. It's just something we entrepreneurs have to learn to live with.'

The Other End of the Scale: Overconfidence

Wilbur Wright, the co-inventor of the airplane, once wrote to his father, *when flying, I have learned that carelessness and overconfidence are far more dangerous than deliberately accepted risks*. Put another way, the inventor of one of the world's most useful devices firmly believed that a little fear is a good thing. His contention is that fear keeps one in check. 'Overconfidence can lead to misjudgment, disregard, or the ignoring of good ideas and advice,' says psychologist Amanda Druckerman. She goes on to say that people who believe that they're superior to everyone else (which is partly what defines overconfidence) are often incompetent and self-deceptive, which opens the door to missing out on opportunities.

Think about Druckerman's words - and those of Wilbur Wright - when contemplating the oft-reported line that the majority of the world's business ventures involve little more than: (1) manufacturing a product, (2) providing a service, or, (3) distributing or selling a service or product.

Advice from the Pros

By now it should be apparent that starting a business is an eclectic, all-or-nothing endeavor filled with misconception, contradictions, joy, defeats, and advice (both wanted and unwanted). With that in mind, this chapter has been concluded (as has every chapter) with the wisdom of entrepreneurs, many of whom assisted in the writing of this book with their hard-won advice.

- In business, as in life, know that you cannot change what you tolerate.
- Be honest as to what you want and need.
- Accept the fact that some things in life cannot be taught, they can only be learned.
- Remember that fear is a gift. It is nature's way of keeping you alert.
- Think of fear as an acronym: **F**alse **E**vidence **A**ppearing **R**eal.
- Make a list of what you are afraid of (it's not so frightening now, is it?).
- Find out if others have experienced similar fears and what they did to overcome them.
- Tear up the list you wrote above.
- Know that there is no trust or safety where there are unanswered questions.
- Map out the direction you wish to take by writing down what needs to be done.
- Start moving toward your goal by gathering as much related information as you can and adapting it to fit your prospective customers, your region, and the business-structure you would like to begin. You have nothing to lose by educating yourself.
- To an entrepreneur, every day is a crisis (Philip Knight, founder of Nike)

Chapter 2
Starting Your Business: Why, When, and Where Should You Do It?

'Be original… unless you want to get very rich, very fast – then copy like crazy.'

Dan S. Kennedy

Not long ago, a medical researcher in London spent an afternoon visiting an art gallery. One of the more intriguing displays he saw used magnets to move colored metal particles inside glass tubes. Another display used the repelling force of a giant magnet to levitate a series of smaller magnets. Sometime later he inexplicably thought of these exhibits, which led him to the belief that it just might be possible to use magnets to push and pull ionized cancer medications directly into tumors. As a result, a new field of medicine was born.

Just as with science, business also has the same ability to merge what may appear to be two seemingly unrelated fields that lead to something completely new. Note, however, that the researcher in the example above would not have come up with his groundbreaking idea if he had not first discovered a field of interest that excited him and if he had declined to take an interest in the world around him. It's not much different for those wishing to start a new business. Prospective entrepreneurs should start with an interest or passion in a field, area, or product and explore the purpose and goals behind why they want to make a major change in their life. This type of honesty and insight often proves invaluable in ensuring that the rationale behind a proposed business is valid.

Starting a New Business

Popular opinion suggests that owning a business involves working flexible hours, not being beholden to anyone, having the ability to make independent decisions, and, in effect, being completely on one's own. Equally as ubiquitous is the belief that because life has not quite turned out the way it was envisioned, entrepreneurship is as good an instigator of change as any to chart a new course to success. Unfortunately, in both these cases, reality can be quite different from what is believed.

What is needed to be successful in business? According to experienced entrepreneurs, apart from a sound idea and a *combination* of good reasons, one must desire to set out into the unknown with the heart of an explorer and the mind of a business contractor. In addition, it must be understood that a journey laden with risk, hard work, sacrifice, and occasional setbacks, is what lies ahead.

If this sounds somewhat harsh, consider the fact that in some cases up to 90% of new enterprises go out of business within the first three to five years of operation. Traditionally, it was usually assumed that many startups go bust due to a lack of research and prepararion, poor business practices or unforeseen economic influences. Yet a growing number of researchers think that a large number of businesses 'fail' because their overworked owners decided that the rewards are simply not worth the effort – so the plug is deliberately pulled.

Good Reasons for Thinking About Starting a Business

Because starting-up a business can be difficult, it's a good idea for a beginner to have *several* good reasons as to why he or she would like to become an entrepreneur. The most common of these are:

- A desire to be one's own boss and handle more responsibility.
- A love of difficult challenges.
- The seeking of career independence as well as more control over life and its direction.
- A major 'life change' has occurred (i.e.: divorce, disability, job loss, pregnancy, retirement…).
- The entrepreneur has invented, developed, or innovated a new product or service.
- A current job is going nowhere.
- Money has suddenly become available (i.e.: an inheritance, the lottery, the selling of assets…).
- An opportunity has made itself known (i.e.: a local business is up for sale; a group of people whose needs are not being met has been spotted; or a product people would pay for has been discovered).

Poor Reasons for Starting a Business

Following is a list of poor reasons for starting a business. Experienced professionals consider these to be poor motivators because, on their own, they're usually not enough to sustain long-term commitment.

- *Desperation*. Make no mistake, desperation is a powerful motivational stimulus. Yet it can also lead to poor judgment, rash decisions, and a dangerous leap into untested waters.
- *There is nothing else to do*. Feeling that no other options are available shows a lack of commitment and passion – two essential elements that comprise successful entrepreneurship.
- *There is lots of money to be made*. This is a pipe dream, and it's often fueled by media stories that highlight app/software developers (or others) who struck it rich 'overnight'. However, entrepreneurs must be realistic with their expectations and know the difference between making a one-time-only profit, making a living, and daydreaming. The vast majority of successful entrepreneurs make a living, not a fortune.
- *Owning a business will make life easier*. Unfortunately, having a business usually *increases* one's responsibilities. That doesn't translate into making life easier.
- *The entrepreneur can't work with others*. If a wannabe entrepreneur can't work with other people then he or she is going to have countless problems dealing with customers, bankers, a landlord, suppliers, local or federal agencies, a parent company (if the entrepreneur is involved in a franchise) and the many other people who are often both directly and indirectly involved in private enterprise.
- *Owning a business will provide more free time*. Running a business is time consuming and life consuming. Every entrepreneur interviewed for this book stated that he or she worked longer and harder running their own business than they ever did working for someone else (see the time schedule chart on page 119, *How Small Business Owners/Managers Spend Their Time*).

When is the Best Time to Start a New Business Venture?

Some enthusiasts claim that there is no better time than *now* to own and run a business. It may be more prudent, however, for potential entrepreneurs to write down, research, and address exactly what it is they wish to do before they begin – as well as examine what starting a business will involve and how the process will be tackled. Without this knowledge (which can take six months or longer to accumulate), the entrepreneur will probably not be ready for business ownership. Just as important, critical outside obligations (e.g.: the onset of medical treatment, college tuition payments, financial problems, unresolved crisis, personal dilemmas, and so on…) should be taken care of beforehand to avoid distractions. The understanding and support of partners, spouses, or children is equally as crucial because many experienced practitioners insist that entrepreneurs do not have much time to spend with their loved ones during the first few years of a new business venture.

What about the economy? Is it prudent to wait for the economy to improve before starting a business? *Disney*, *Hewlett-Packard*, and *Microsoft* all started during economic downturns - as did half of the 30 companies that comprise the *Dow Jones Industrial Average*. Indeed, some analysts claim that a recession is a great time to open a business because wages are down, rents are cheaper, competition is scarce, and goods and services can be found at a discount. That being said, there is no definitive proof to suggest that recessions make starting a business easier. The availability of resources, personal abilities, and the current circumstances of the entrepreneur should all play major roles in determining the best time to start-up a business.

Where Is the Best Place to Start A Business?

The most obvious answer to this question is *where there are plenty of customers*. But one must also take into account the specifics of the area or region where prospective customers are located. For example, if you're planning on setting up a business in a part of the world that you're only partly familiar with (perhaps because you fell in love with it while on vacation), do plenty of homework first. According to the World Bank's *International Finance Corporation* (IFC), entrepreneurs planning on starting a business in a foreign country or unfamiliar area should first ensure that the following situations exist:

1. There should be a low number of rules, regulations, paperwork, and licenses so the business and its activities can be made legitimate in a timely manner.
2. The business owner should be able to hire and fire employees with relative ease.
3. The business owner should have the capacity to draw up and enforce a legal contract.
4. The business owner should be able to obtain credit or borrow money.
5. A low number of steps and procedures should exist so that the business can either be closed down - or bankruptcy can be declared - with relative ease.

Advice from the Pros

The answers to why, when, and where a business should be started form the foundation of successful entrepreneurship. 'If you're interested in starting a business the answers to a lot of your questions will arise *after* you've searched and explored both yourself and your reasons for doing so,' says restaurant owner Bernard Marche (founder of the *Chick-a-Chick* cafe in Warsaw, Poland). 'To avoid surprises and the unnecessary expenses behind them, examine each and every environmental, economic, and financial situation that surrounds you before taking action.' Additional start-up advice from experienced entrepreneurs includes:

- Avoid rushing into uncharted territory. Don't leap before looking.
- Know the unexpected places where an entrepreneurial lifestyle may lead. For example, if you're a jewelry worker who loves the craft, but you're sick and tired of laboring for someone else and want to spend more time working as a designer, bear in mind that running your own business

may involve more administrative than creative work.

- Yes, it is possible to bake cookies, or build a piece of furniture, or design a website for a friend and be paid for it. But if you want to turn these pastimes into a business you must first find out if producing them on a regular basis can secure a living. Is there an ongoing market for these products/services in your area? If not, can you afford to attract distant customers and ship your product to them? Will the money you generate be enough to pay a mortgage and bills *and* support your family?
- Before taking the entrepreneurial plunge, prepare for the obstacles that stand in your way. Novel situations in business are rare so it *is* possible to determine much of what lies ahead.
- Don't leave a paying job to start your own enterprise until you have first sorted out what you want to do, the direction you want to go, and the best time to start. Keep your current job while examining the self-employment options available. That way you won't be deprived of income before you begin.
- If you have a good idea and have done your research, move quickly and prudently. Procrastination is a killer in the business world.
- Whether starting a business or launching a new product, remember that the idea is to score goals, not just kick the ball. 100% commitment is mandatory. The harder you work, the luckier you get. As famed Hollywood film producer Mike Todd once said, *the meek may inherit the earth, but not in our lifetime*.
- Lastly, consider the often told (probably apocryphal) story about two explorers that were sent by a shoe company to a primitive part of the world to determine the viability of the market. 'Complete disaster!' wired the first explorer, 'No one here wears shoes.' The telegram from the second explorer arrived a few hours later. 'Fantastic opportunity!' it read, 'No one here wears shoes!'

Chapter 3

Finding a Good Business Idea

> *In business, the idea is the main thing. Capital can be raised and lost and raised again, but lose the idea and everything is lost.'*
>
> Gottlieb Duttweiler
>
> *'Opportunity is missed by most because it's dressed in overalls and looks like hard work.'*
>
> Thomas Edison

Commercial enterprise is not about sellers, it's about buyers (customers). The idea is to match the wants and needs of customers with the interests and passion of the entrepreneur. This can be a time-consuming process. The owner and operator of *Equation Business Solutions* in Cape Town, South Africa says that exploring a subject or product that the entrepreneur is familiar with (or curious about) is a good place to begin. Other suggestions include searching through the *Yellow Pages* to find an existing idea that can be copied or expanded upon. Edwin Land, the inventor of *Polaroid* photography, once said that *the best way to have a new idea is to stop thinking in terms of old ideas*. In this regard, perhaps combining different professions can yield a result. An interest in accounting and boating, for example, might be fused together to provide accounting services to the boating industry. *Or* maybe experience with software and knowledge of transportation networks can be merged to create a new service for suppliers or distributors. Additional options include examining both sides of an existing opportunity. For instance, security and private-police services make up the world's fastest growing industry, so perhaps a copycat security service can be developed; or maybe a marketable idea that reduces the circumstances behind the need for more security is a better option. Other methods of searching for potential markets involve visiting areas with an economic level or geographic location of personal interest to see if it has a needy segment – or investigating the commercial aspects of a field or subject that appears interesting. The challenge for the entrepreneur is to match personal skills, interests, and capabilities with an inherent passion and tie it in to an underserved customer base. Following is a list of questions designed to help do just that:

- *What do I enjoy doing the most?* Doing something enjoyable is a good way to ignite commitment and possibly uncover an idea that will prove profitable. For example, the *Boeing* (aircraft) Company got its start after flight enthusiast Bill Boeing built a plane in 1916. One plane led to two, then three... and so on. In Glasgow, Scotland child-lover Cathy Campbell turned the front room of her home into a crèche (a daycare centre). Cathy started small and insists she wants to stay small so she can focus on her clients and avoid too many administrative duties – thereby allowing her to do what she loves most, which is play with children.
- *What are my hobbies and/or interests?* Anything from growing roses to personalizing software programs to building model ships can be turned into a profitable business if the circumstances are right – either by teaching others how to do it, by packaging and selling what is created, or by selling related products to fellow enthusiasts. For example, quite a number of multi-million dollar computer companies (*Apple*, *Dell*, *Microsoft*...) were started by 'computer nerds' who turned their computing interests into selling marketable computing products and services to similar enthusiasts.

- *What subject(s) or pastimes did I enjoy in college (or high school)?* Think back to your student years. Can the one or two subjects you found most fascinating be turned into a money-making idea? With a little thought and effort they just might. For example, when *MIT* professor Harold Edgerton invented the strobe light he couldn't interest *General Electric* in its possibilities so he hooked up with two students and formed a business (*EG&G*) that photographed mechanical processes at high speed, thereby providing a new way to look at, and solve, industrial problems. Similarly, *Hewlett-Packard* was formed by two *Stanford* students (Dave Packard and Bill Hewlett) who had a passion for electronics. One of their first products, an audio oscillator, was purchased by Walt Disney for the making of *Fantasia*. Then there's Gary Comer. With no more than a high school education and a love of sailing, Gary started a business that supplied sailing equipment to fellow enthusiasts. The name of that business? Mail order giant, *Lands' End*.
- *What marketable experience, knowledge, or skills do I possess?* Almost everyone possesses a skill or knowledge that has the potential to make money. For example, *Snap-On Tools* began when machinists Joe Johnson and William Seidemann fashioned together a set of interchangeable sockets and wrench handles to make their job easier. The company where they worked rejected their idea out of hand, but being experienced machinists Johnson and Seidemann knew their idea was a sound one so they developed it on their own. In another example, fast food manager R. David Thomas helped Colonel Sanders succeed with his *Kentucky Fried Chicken* franchise then went on to use the additional experience he gained to start the *Wendy's* burger chain (named after his daughter). Further examples of using personal skills to create a new business include 'mash-up' operations that combine different web-based tools to create new search and software possibilities or teaching-based operations that show others how to use digital photo software (or any new software for that matter). Technical processing or data collection services as well as services that provide creative design work for documents, menus, or marketing provide additional examples.
- *Have I ever looked at another business or product and thought 'I can do better than that!'* Many successful businesses get started because they're better than what their competitors offer in terms of service, quality, location, speed, or uniqueness. When Kemmons Wilson was charged an additional fee at a roadside motel for each of his five children he became so upset he started *Holiday Inn*. Polish immigrant Rueben Mattus, a high school dropout who scratched a meager living selling ice cream in Brooklyn, New York, suffered through years of price wars, cut-throat competition, and ingredient shortages caused by World War II before he finally decided to fight his competitors by developing an ice cream that didn't skimp on ingredients. After coming to the conclusion that many people in America hated the Irish, the Italians, the Poles, and the Jews, Mattus came up with the fictitious Danish-sounding name of *Haagen-Dazs* (he reasoned that no one hated the Danes) and took over a niche luxury-food market that had previously not been considered. In New York, dry-cleaning equipment salesman Leon Hirsch was milling around a patent broker's office when he noticed an ungainly surgical stapler that had been invented decades earlier. Fascinated, he bought the licensing rights to the tool, improved its performance, and started *The United States Surgical Corporation* (it became a *Fortune 500* company). Simply put, people will usually pay good money for products or services that in some way improve upon what's currently on the market.

- *Are the people in my community asking for, or in need of, a product or service?* For centuries, perceptive entrepreneurs have known that products or services that are needed or wanted are sure-fire money makers. That's how *Levi Strauss* (of 'blue jeans' fame) got his start in the clothing industry. Strauss immigrated to the United States to start a dry goods business, but after landing in California he quickly discovered that most miners were desperate for clothing that could withstand the rigors of the mining trade. Not wanting to pass up this opportunity (and not finding anything on the market to fit the bill), he fashioned a pair of trousers out of canvas, used rivets to hold the seams together, and created the '501 Blue Jean'. *Avon Cosmetics* was founded by book salesman David McConnell who quickly discovered that the free perfume samples he gave to women were more popular than his books. Decades later, Tom Fatjo and Louis Walters sensed that changing environmental laws were going to create opportunities for garbage collection so they bought a specialized garbage truck to help fill the needs of their community. Thirteen years passed during which time their business, *Browning-Ferris*, became the second largest waste disposal company in America. Lastly, the *Kaiser* supermarket in Berlin, Germany realized that most of the city's population would be over the age of 50 by 2010, is now raking in newfound profits thanks to a store designed specifically for the elderly. The store includes non-slip floors, wider aisles, magnifying glasses attached to shopping carts (to help read product labels), and steps lining the aisles so customers can reach items on high shelves.
- *What will make the world (or my neighborhood) a better place?* New ways of thinking that can help the world become a better place to live can lead to much entrepreneurial success. For example, Anita Roddick founded the *Body Shop* because she was upset by the fact that most cosmetics were tested on animals by squirting chemicals directly into their eyes. Her idea was to set up a company that sold beauty products free from animal testing. One hundred years earlier, the *Borden* food company came up with a winning idea that made the world safer when founder Gail Borden witnessed a number of infant deaths from putrefied milk and saw the need for a non-perishable substitute. Borden's creative thinking and determination led to the discovery of condensed milk. The clockwork radio, a wind-up device invented by Trevor Baylis so people in remote places (without access to batteries) have the ability to stay in touch with the rest of the world, became a worldwide testament to innovation and persistence (a wind-up laptop computer has also been developed based on this concept). The water-purifying drinking straw, packed with filtration aids, is yet another life-saving device designed to assist people in time of need. Over the past few decades, farmers and livestock breeders have capitalized on markets that pay top prices for eco-friendly, organic products. The point here is that opportunities exist for entrepreneurs who invent or innovate new products or services, increase efficiency, develop safe product alternatives, improve work systems or manufacturing processes, or find ways to produce products that are easier on the environment and healthier for customers (see Chapter 35).
- *Is there an obvious problem out there just waiting for a solution?* With so many people concerned about clean, cheap energy (and the environment), business ventures that provide an alternative to dirty and expensive energy practices are proving to be real money-spinners (again, see Chapter 35). For example, in 2005, Scottish entrepreneur David Gordon was exiting a meeting in Glasgow, Scotland when he noticed a tree swaying in the wind next to an apartment building. He began thinking about how the energy moving the tree could be harnessed to provide power for the building and he quickly realized that somebody somewhere would probably make a fortune from wind power. He wanted that someone to be him. After doing some research, Gordon visualized a wind turbine small enough to fit on the top of a house or building. His next move was to develop a patented 'inverter' that pumps the turbine's electricity straight into a building's power structure. A range of products and services followed to complement the sustainable energy sector that's being capitalizing on - including offering customers help with financing. The result? In his first year of business Gordon sold over 18,000 *Windsave* turbines at a price of around $4,400 per unit (Farrow, 2007), but it has not been smooth sailing; the

company experienced many ups and downs along its way due to the pioneering aspect of its product. Indeed, due to a series of quality control issues and other problems, it is difficult to ascertain if the company is still in business. Meanwhile, in Eskilstuna, Sweden a new shopping mall *(ReTuna Återbruksgalleria*) opened in early 2017. 'The facilities contain both a recycling center and a shopping mall. Customers can donate the items that they no longer need, and shop for something new – all in one stop. Dropped off goods are sorted into various workshops where they are refurbished or repaired accordingly. Products are then sorted into 14 specialty shops that include furniture, computers, audio equipment, clothes, toys, bikes, and gardening and building materials; all garnered from second-hand products. The center also includes a café and restaurant with a focus on organic products, as well as a conference and exhibition facility complete with a school for studying recycling' (Ghent 2017).

- *Is there a current product or service on the market I truly believe in?* Business ideas do not have to be original. Sometimes an old idea can be copied and introduced into a new market to astonishing effect. For example, after witnessing *Domino's Pizza*'s quick home deliveries in his travels through the United States, Leopoldo Pujals returned to Spain, set up a similar operation in 1987, and named it *TelePizza*. By 2010, the company had opened 1,025 outlets around the world. In April 2016, the company completed an IPO worth around €550-million. In the United States, Cheri Faith Woodward started the *Faith Mountain Company*, a $20-million mail-order business that distributes herbs, dried flowers, kitchen implements and handicrafts. Although Woodward learned her trade from a local woman who had been sharing her knowledge with others for decades, it was Woodward that turned this knowledge into a business. After 25-years of business, the company closed and sold its mailing list and database, which contained the names and addresses of over 1.7-million customers.
- *What do the people or customers in my current job complain about (or want) the most?* Unhappy customers can unwittingly uncover vast opportunities - *if* they're taken seriously and *if* someone takes the time to listen to them. For example, *Buster Brown* shoes came into being when shoe salesman George Warren Brown heard people complaining that most shoe fashions were staid. At this point in time (1878), the entire American shoe industry was located in New England so Brown developed a line of shoes that catered to his local market. Within a few years his products were being sold coast to coast. More recently, a corporate executive in London, England overheard several complaints circulating in his office about how difficult it was to find a good plumber. Intrigued by the notion of setting out on his own and working with his hands, he took a course in plumbing, became a registered plumber, and set up his own business. He now makes about the same money per year as a plumber compared with what he made as an executive.

- *Is there a need for a product or service in an underserved market?* Too many small markets are ignored by business communities because of prejudice, ignorance, outdated misconceptions, or just plain laziness. Consider the *GrameenPhone* telecommunications company in Bangladesh, which was assisted in its start-up phase by Nobel Prize winner Mohammad Yunus. GrameenPhone ('Gram' means village) began selling mobile phones to impoverished communities in 1997. Instead of sticking with the traditional business model of selling one phone at a time to a customer (which is impossible to do in a country where the average yearly income is only $286), a new business model was established in which a single mobile phone is leased to a village and shared by dozens of people. Six years later, with this innovative service having expanded to include over 50-million people, GrameenPhone produced revenues of $330-million per annum. Future revenues are expected to rise to half a billion dollars. Equally as important, by providing poor regions with a much-needed phone service, farmers and local businesspeople now have the ability to sell their products on a timelier basis. The resulting rise in income levels has lifted many customers out of abject squalor – and all because an astute entrepreneur named Iqbal Quadir took the time to figure out how the selling of a useful product could be modified to fit a needy market.
- *Is there a type of person, group, or customer base I connect with?* Those who enjoy working with the elderly, an ethnic group, hobbyists, children, mountain climbers, basketball players, or any form of potential customer probably harbor an above-average ability to talk with them, discover what it is they need or want, and learn ways to serve them. That's how Daniel Gerber, son of the president of the *Fremont Canning Company* in Michigan, came up with his revolutionary idea of selling baby food. Gerber never thought much about parents with small children until his wife had a baby. Only then did he realize how difficult it was to prepare and strain baby food. After confirming this with countless parents he used his father's machinery to develop food products for infants. Eventually his idea became so successful the company abandoned its adult line and concentrated solely on making baby food. In another example, the all-female *Pink Taxi* service in Moscow, Russia began life when entrepreneur Olga Fomina discovered that a lot of women don't like to ride in taxis because most taxi drivers are men and men are the perpetrators of most assaults on women. Her business idea was to start a taxi service that only caters to women – a business model that has spawned similar all-female taxi businesses in many other countries.

How Stupid is a Stupid Idea?

As mentioned in Chapter 1, fear can shut down any stage of the entrepreneurial process, however, unfounded apprehension or the opinions of others should not be allowed to drown a business idea before it's been researched.

'After an idea has been conceived, a thorough research investigation is the best way to determine if it's viable,' says the operator of South Africa's *Cape Town Boat Builder's Initiative*. This means examining the market to determine if demand is great enough to cover production costs *and* sustain long-term profitability. A thorough research investigation will provide valuable information as to how a product can be modified to maximize profits, how it can best be sold, the price customers are willing to pay for it, the size of the market – or, perhaps, the painful truth that the idea is simply not feasible (see Chapters 5 and 6). The dog poop collection industry (yes, you read that correctly) illustrates this point.

Collecting dog excrement may seem like a strange way to make a living, yet over 300 such businesses exist in North America alone. With $8-$10 being charged to clean up a typical household yard, and the number of dog owners increasing, profits are – excuse the pun – piling up. In fact by June 2010, one company (*Pet Butler*) in Texas serviced 50,000 clients and collected in excess of $500,000 *every week* (as of May 2017, the company boasts that it has 'scooped' over 24,254,962 poops!).

At the other end of the spectrum, way at the other end, consider the success of *Starbucks* coffee shops. Thinking back to the 1970's when Starbucks began, it would seem absurd to create a business model based on a coffee shop where the price of a cup of coffee was envisioned as $5 or $6, especially during a time when most restaurants charged around 10-percent that amount. Millions of potential customers, however, thought otherwise. The moral of the story? Don't 'pooh-pooh' a business idea that targets a bona fide customer base and satisfies a need.

The Need for New Ideas Never Ends

Even after running a successful business for years, at some point whatever is being sold - as well as the way it's being sold - may become tiresome in the eyes of customers. It therefore makes sense to be on the lookout for new products to sell, as well as new ways to add to, or improve, existing products and services.

The good news is that entrepreneurs do not have to go through this process alone. Good, reliable ideas can (and should) come from a number of different sources *if* an effort is made to find them. The chart below (FIGURE 3-1), which was derived directly from research collected for this book, reveals where the entrepreneurs I questioned get most of their new product or business improvement ideas. As the diagram shows, 79% of successful business ideas come from sources other than business owners and operators. In other words, profitable businesses are outward-looking and customer driven; not inward-looking entities that act upon the singular judgment or whim of business owners.

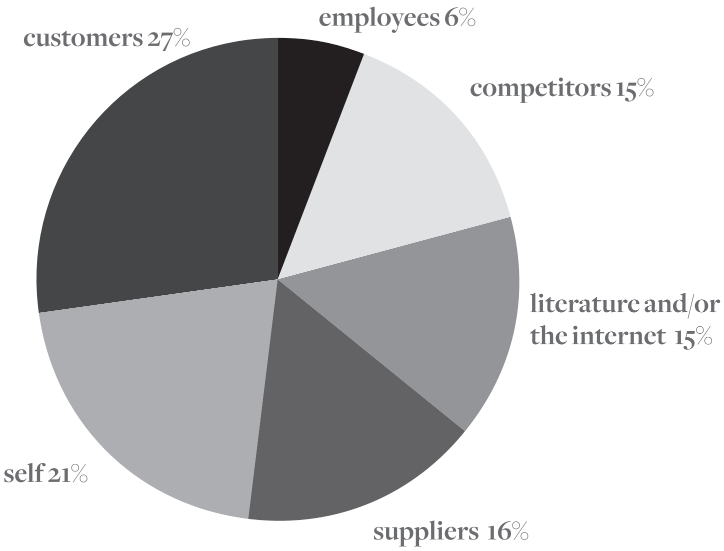


Figure 3-1: Where Do Small Business Operators Get Their Ideas?

Clearly, finding a good business idea is not, nor should it ever be, a go-it-alone endeavor – particularly when most successful businesses are based on what customers want to buy, not what the business wants to sell.

Advice from the Pros

- When a business idea is conceived, ignore the pessimists and rely on research. Entrepreneurs often succeed by breaking the rules and that means going against the conventional wisdom of people who have no proof to backup their opinions.
- Even if your business has been up and running for years, never stop thinking about refining old ideas and coming up with new ones.
- It's better to have a million ideas and no money than a million dollars and no ideas. A pile of money with no ideas to nurture it will soon be lost.
- Dare to be different. Those who travel with the herd, often end up where the herd is going, which is usually nowhere.
- Be prepared to compromise. This is not a contradiction of the above statements. Commercial business is about serving customers, not the whims and self-interests of a business owner.
- Allow research - rather than opinion - to determine the difference between a good idea, a fantasy, a scam, or a lousy idea.

Chapter 4
Setting-Up a Business: The Options

> *'To find out what one is fitted to do,*
> *and to secure an opportunity to do it,*
> *is the key to happiness.'*
>
> John Dewey

Which is best: starting a business from scratch or buying an existing one? Setting-up an independent operation or owning a franchise? Working part-time or full-time? Each of these options has its advantages and disadvantages and, for the aspiring entrepreneur, each should be weighed against (a) the product he or she wishes to offer, (b) the intended customer base, and, (c) the abilities, character, and work habits of the entrepreneur. For example, if an entrepreneur is socially oriented then he or she should probably avoid businesses that demand long periods of solitude. Equally, those who enjoy working by themselves should avoid a business that requires much customer interaction. Similarly, entrepreneurs who work best in the morning (or evening) should gravitate toward a business that requires working during these times. And business owners that want to start small and stay small will have different needs and concerns than those who have plans to grow. With so many options available the following advice should prove helpful:

– *Try a business first before starting one*. 'Before choosing a long-term career path, talk with people who have taken the same one,' says the owner of *Northwest Prototypes Ltd*., in Manchester, England. 'Or volunteer to work part-time in a similar business or industry to ensure that it's everything you expect it to be,' suggests the founder of *Pamir Production Services* in Warsaw, Poland. Another option is to discuss personal needs and abilities with family, friends, and colleagues. They may be able to help simply by stating the obvious. Whichever option is chosen, making a life-changing decision should not be done alone, particularly when it involves others. Ask for advice and opinions of those in the know.

– *Would you be willing to spend a lot of money to have someone else set-up a business for you?* If so, you may wish to consider buying an existing business or franchise. Note, however, that this does not make running a business any easier. The owner of a *McDonald's* franchise in London, England, for example, says that she often stays in her office until ten o'clock at night completing the unending stream of paperwork that running a food service requires.

– *How much time are you willing to spend on a business or idea?* The amount of time it takes to learn a new trade or skill *and* get a new business venture up (and keep it up) is considerable. In effect, when starting a business, entrepreneurs begin their professional life all over again – from the bottom. For example, many years ago a friend of mine sold his dental laboratory. He spent years building it, but after too many long nights completing day-to-day business activities *and* keeping up with government regulations and insurance requirements - in addition to his regular lab work - he decided that he would rather have a nine-to-five job at a hospital so he could spend more time with his son.

The Options

Generally speaking, there are four types of business operations from which an entrepreneur can choose:

Part-Time Businesses:

Most part-time enterprises operate during evenings and/or weekends. Since this type of employment is often an offshoot of a hobby or other interest, the benefits of working in this manner can translate into enormous job satisfaction. Other advantages include not having to leave another job and/or avoiding the financial risk of investing in a full-time business. Tax advantages are an additional bonus for part-time entrepreneurs *if* working from home can be claimed as a tax deduction. Part-time work also allows an entrepreneur to 'test the waters' of a potential full-time endeavor before taking the plunge, thereby providing valuable research and experience and possibly lowering risk.

The disadvantages of a part-time business include the fact that the work the entrepreneur performs often falls behind other more pressing commitments such as a full-time job (which means that the part-time business may never fully function because enough time can't be devoted to it). Additionally, businesses that operate part-time and require direct customer engagement provide customers with less time to purchase or partake in the product or service being offered. Lastly, a feeling of holding down two jobs can be unhealthy and possibly lead to marital or social problems.

Full-Time Businesses

…fall into three categories: *Start-ups*, *Existing Businesses*, and *Franchises*.

A. The *start-up business* involves building a business from scratch (which often requires years of hard work). If successful, however, many entrepreneurs insist that the results are very rewarding. Much of this book deals with starting a business from scratch so it's not necessary to go into details here. Suffice it to say that building a business from the ground up is the most time-consuming and arduous of an entrepreneur's options. According to one self-made businesswoman, the difference between starting a business from scratch and buying an existing one is comparable to giving birth to a baby or adopting one that's already been potty trained. Either way, hard work lies ahead.

B. *Buying an existing business* is an alternative well worth exploring, however, before handing over hard-earned cash for a business that's on the market it's imperative to first know *why* it's for sale. Several years ago, for example, two British entrepreneurs decided to buy a seaside enterprise that was on the market for £100,000. Fortunately, before any money changed hands, a licensed appraiser discovered that it was only worth £15,000 because it was unprofitable, it had no contracts to guarantee future sales, and the equipment that comprised it was outdated and beyond warranty. The moral of the story is that a sunny climate, a charming setting, or a misplaced romantic notion of business ownership are not valid reasons for buying (or starting) a business. Similarly, it's wise to be skeptical of stories from sellers about sickness, dreams of retirement or travel, and so on. Many businesses are on the market because demand for their products or services no longer exists. That's why having experience with related merchandise, equipment, and customers is so important. Before buying, think about procuring the services of a non-biased, outside professional to help determine what an on-the-market business is really worth. The costs involved in running the business and any hidden dangers or debts should also be determined. Investigating the real reasons why a business is for sale can be achieved in part by obtaining answers to the following questions:

- What is the business's history?
- Are there any other owners?
- Is the business in debt? (If so, to whom and for how much?)
- Are any legal actions pending against the business?
- Are any special licenses or permits required?
- Is the property and/or its equipment in need of repair or still under warranty?
- Who are the business's main customers, what is their history, where are they located and will they stay with the business if it changes hands?
- Who are the business's main suppliers, what is their history, and where are they located?
- Have (or will) changing environmental conditions or demographics alter future sales prospects?
- Who are the business's main competitors, where are they located, and what is their specialty?
- How often has the business been audited? (Prospective buyers should be privy to all records)
- What are the obligations of the sale?
- Does the sale include inventory? If so, is the inventory still valid and/or up to date?
- Is the prospective buyer entitled to the copyrights and/or trademarks of the business?
- How long will it take to pay back any loans? (What are the financial goals of the prospective buyer?)

C. *Franchising* is a third entrepreneurship option. The advantages of owning a franchise include being a part of a (supposedly) tried-and-tested operation that can regularly provide marketing and business assistance. Disadvantages include the fact that not all franchises are the helpful, license-to-print-money operations they claim to be. For example, one entrepreneur in the United States bought a franchised clothing store thinking that because the name of the enterprise was well known it was a secure investment. Sometime later, however, he watched helplessly as an investment company with no retail background bought the parent company that licensed the franchises. When the inevitable bankruptcy occurred, he could not bail out without permission from the bankruptcy court (which was not forthcoming) and he – as well as all the other franchise owners - lost his security deposit and investment (Halloran, 1992).

Note that more than money may be needed to acquire a franchise. Some franchise companies insist that buyers undergo an extended training course and a thorough background check beforehand (which is a very good sign). Others provide no training or assistance whatsoever. High-pressure sales tactics are another commonplace occurrence with franchises. Once an interest in a franchise is stated, it's not unusual to become the target of a slick marketing campaign designed to get the unsuspecting entrepreneur to quickly hand over his or her money.

Basic questions that need answering before purchasing a franchise include:

- The full legal name of the franchiser (or business) and its complete history.
- The names and contact information of all the people involved in the administration of the company.
- A full account of all administrative, criminal, or civil legal action currently pending (or completed) against the franchiser (or the business) and its employees.
- A full disclosure of any bankruptcy filings.
- A full disclosure of all fees, costs, and other payments including service fees, lease payments, insurance, training fees, franchising fees, advertising and royalties.
- If the franchiser (or another company) is the sole supplier of certain goods or services, a list is required as to what needs to be purchased and at what cost.
- If the franchiser (or the business owner) provides financing, a full disclosure must be made

regarding terms and conditions.

- Explanations of franchising assistance, training programs, and territory rights – as well as the use of commercial symbols, logos, or trademarks must be provided.
- The management obligations of the franchise purchaser must be clearly stated (i.e.: Does the legal owner of the business have to manage the business, or can a hired employee do so?).
- A statement must be provided fully explaining license renewals or extension provisions.
- An explanation of the earnings clause (if any) must be fully and clearly stated (i.e.: monthly, quarterly or annual payments, the franchiser is entitled to).
- A full disclosure of all franchises currently (or formerly) in operation – including contact information – should be provided. (This will allow the prospective buyer to conduct his or her own research.)
- Audited financial statements should be provided.
- A statement of the acknowledgement of receipt of information must be given (in the USA, the sale of a franchise is not considered legally final until ten days after this receipt is signed). (Halloran, 1992)

Advice from the Pros

When perusing available business ownership options, remember that the abilities, character, and needs of the entrepreneur should match the type of business the entrepreneur wants to run, the product being sold, and the customer base being served. The better the match the greater the chance of success and fulfillment.

- Know your strengths, weaknesses, skills, experience, and limits before going into business.
- Compare your options and your abilities with the needs of prospective customers before making any business commitment.
- Ensure that there's a good fit with the product or service you wish to offer and the type of business you envision. For example, if you wish to start a part-time personal accounting service you may need to be available during more than just weekends and evenings.
- Get a full picture of local, state, and national laws – as well as licenses and permits - before jumping into a new business venture. The industry you want to work in may be so over-regulated that you may not be able to pursue exactly what it is you wish to do.
- Don't forget to work out how customers will fit in to your business plans.
- Ask a lot of questions when buying an existing business. If possible, try to get the owner to commit (in writing) to providing assistance for a set period of time after the sale in order to ensure a smooth transition.
- Always check the background, present conditions, and the potential future of the business you wish to buy before signing anything.

Chapter 5

An Introduction to the Importance of Business Research

The only true wisdom is in knowing that you know nothing.

Socrates

Ever on the lookout for new business opportunities, the owner of a small gift shop in the United States noticed that most stores in his area did not sell affordable tableware. Two local retailers offered expensive high-end items, but neither sold anything designed for everyday use. After mulling this fact over for several weeks the shop owner eventually decided to offer low-cost tableware to his customers. He subsequently invested tens of thousands of dollars in a new product line and spent several thousand more refitting his shop to display his new investment. Unfortunately, it took over a year before he finally discovered that there was no demand for his new product range.

Regrettably, a straightforward investigation into local demographics would have revealed that there were a high number of retirees in the area (who did not need new tableware), marriage licenses were on the decrease, income levels had been dropping for years, and there were fewer families with children around. If that wasn't enough, the shop owner's higher-priced competitors boasted installment plans, credit purchases, and other incentives he couldn't afford to offer. Clearly, he was sunk before he even began.

The irony of this story is that the shop owner could easily have avoided his loss if he had first acquired some basic information before spending his money. Instead, he relied on an uninformed hunch, an unchecked desire to branch into a new area, and a misplaced notion of local buying habits (Halloran, 1992).

Step Number 1: Building a Strong Foundation

Whether a business idea involves selling a copycat product (or service) or selling something that's totally unique, there are only two reasons why an entrepreneur should undertake the time, effort, and expense of creating a new business to introduce it: (1) customers have shown that they want it and, (2) there is sufficient enough demand for the proposed product to make a profit.

Successful enterprises sell what customers want to buy rather than what the entrepreneur wants to sell. Period.

How does an entrepreneur find out what customers want to buy? Research. The more research that's conducted in business the less risk is taken. Equally as important is that the investment costs behind a product or service should relate directly to the amount of research that's performed. For example, it's probably not necessary for a restaurant to conduct an expensive, full-scale study to determine its next menu item. On the other hand, a new restaurant facing expensive equipment and raw material purchases coupled with employee training costs and other investments in time and money will require more scrutiny. Why? Consider this statistic: on average, out of every 100 proposed new product ideas that are conceived by manufacturers, 39 begin the development process, 17 survive it, and eight reach the marketplace. Yet incredibly, only one product achieves the objectives behind introducing it in the first place (which is to make money).

Before setting out on a new business venture, it is therefore important to know the reasons why most failed products do not achieve their objectives. These reasons include:

- The potential market was poorly studied and/or overestimated.
- A 'me too' type of product was offered, which was no different from the competition's.
- The costs of developing the product were higher than budget restrictions allowed.
- The product was improperly positioned in the market.
- The paying public saw the product as too expensive.
- The product was poorly designed.
- Competitors fought back harder than anticipated.

Conversely, products (or services) are more apt to produce a profit when:

- A well-defined concept is initiated beforehand in which the market is thoroughly analyzed, customer requirements are met, and the benefits of the product are made abundantly clear,
- The product is seen to be unique and superior to its competition,
- A successful merger between technology and customer needs is made, and,
- All stages of a successful product launch are addressed (customer needs are determined, the product is well designed and thought through, extensive tests are conducted to ensure that the product will be purchased by its intended customers, development needs are met, a cost analysis proves profitability, production methods are found to be sustainable, delivery times and targets are feasible, and the product is well marketed).

Defining Market Research

The word *market* is defined as a collection of buyers (or potential buyers) of a particular product or service. The purpose of market research, therefore, is to gather information about a *product* and its *demand*. Knowing the size and make-up of a market is a good indicator of how potentially lucrative a product might be (see page 71, Figures 11-1 to 11-3). As the owner of *X-Pak S.A.*, in Verviers, Belgium says, 'there is no end of finding new ways to make life easier, to innovate existing products, to improve a service, or to sell something. Good research will help you do all of these things. Research can determine if a product idea has profit potential and if demand will sustain a steady income.' Additionally, a thorough research investigation will help:

- reveal more about a product idea (including its costs) and the target market.
- discover how the product should be sold (and how much of it people might buy).
- determine the optimal location where the product should be sold.
- find the best price at which to sell the product.
- the entrepreneur learn to speak more intelligently about the product.
- the entrepreneur connect with the paying public.
- reveal information about the size and abilities of the competition.
- explore the demographic make-up of a potential customer base.
- discover ways to modify the product or service to maximize its potential, and,
- determine if it's time to let go of an unsuitable idea and find another one.

The Objectives of Market Research

When asked how he succeeds in business, Simon Windsor, the now retired former owner and founder of the *UltraForce Group* worldwide recruitment firm (which was based in the UK) said, 'The absence of evidence is not necessarily the evidence of absence. So I'm usually very sure before I invest in the unknown.'

To help shed light on the unknown, Simon suggests that every business research project should pursue two main objectives:

1. Determine an accurate estimate of costs, and,
2. Produce a reliable estimate of revenues.

For example, if an entrepreneur plans to make a living selling ice cream, he or she will need to know:

A. how much it costs to sell ice cream (including equipment, raw materials, licenses, etc), and,

B. how many scoops of ice cream will have to be sold per week to cover costs

Research into the answers behind these objectives should:

(a) identify who is going to buy the product,

(b) determine how many are going to buy it and,

(c) provide a good estimation of how long demand for the product will last.

Tools for Conducting Marketing Research

Market research is a four-stage procedure.

1. During the first stage, a question or opportunity is defined in regards to the product the entrepreneur wishes to introduce. (For example, can the local market support a new ice cream parlor?)
2. In the second stage of research, the entrepreneur must decide on the tools he or she will use to obtain the necessary data (e.g.: surveys, demographic studies, income analysis, etc.).
3. Collection of information occurs in the third stage.
4. The fourth stage analyzes all information that has been gathered.

Two types of data tools fulfill the second stage.

- *Primary Data* consists of obtaining information firsthand, at its source, for a specific purpose (see Chapter 6). Methods of primary data collection include questionnaires, personal interviews, interviews with groups of people (focus groups), and mail and telephone surveys.
- *Secondary Data* involves information that has already been collected – usually for another purpose. Examples include demographic studies, surveys, college and university research projects, magazines, books, government data, Internet searches, and so on. Secondary information can also be found in libraries, Small Business Administration (SBA) offices, the Service Corps of Retired Executives (SCORE), local Small Business Development Centers (SBDC), local enterprise councils, a Chamber of Commerce, or even a community bank. Careful internet searches can also be invaluable.

Sources of Secondary Data Collection

Secondary data is the easiest source to begin with because it has already been collected - thus making it cheaper and faster to obtain. Common sources of secondary data include, but are by no means limited to:

- Books. Examples include:
  - *The Business Periodical Index*, which lists business articles that appear in major business publications.
  - *The Encyclopedia of Associations*, which lists and describes organizations and groups across the USA.
  - *Standard & Poor's Industry Surveys*, which provide statistics and analyses of industries.
- Commercial Information (usually sold to subscribers). Examples include:
  - *The A.C. Nielsen Company*. Provides data on market share, retail prices, sales, television audiences, household purchases and much more.
  - *Information Resources, Inc*. Collects supermarket scanner information, grocery product movement data, and customer behavior.
  - *NFO Research*. Provides information for mail order businesses, the beverage industry, product testing, attitude and usage studies, tracking, and market segmentation.
  - *Simmons Market Research Group* (MRB Group). Publishes an annual report on lifestyles and regional demographics in regards to age, sex, income, and brand preference.
- Government Publication Titles. Examples include:
  - The Annual Survey of Manufacturers
  - Business Statistics
  - The Census of Manufacturers
  - *The Census of Population*
  - The Census of Retail Trade
  - Foreign Economic Trends and their Implications for the United States
  - Industrial Outlook
  - The Monthly Labor Review
  - The Survey of Current Business
  - *The Vital Statistics Report*
- International Data Sources. Examples include:
  - The Asian Economic Handbook
  - Country Studies
  - *The Demographic Yearbook* (information on 220 countries published by the UN)
  - *The Economic Survey of Europe*
  - The Europa Yearbook
  - *The Statistical Yearbook* (UN)
  - International Financial Statistics
  - *International Marketing Data and Statistics*
  - *The International Trade Statistics Yearbook* (published by the UN)

- Periodical Titles. Examples include:
  - Advertising Age
  - The Journal of Marketing
  - Campaign
  - The Journal of Marketing Research
  - Chain Store Age
  - The Progressive Grocer
  - International Journal of Research in Marketing
  - Marketing Week
  - The Journal of Consumer Research
  - Sales and Marketing Management

Sources of Primary Data Collection

Make no mistake, primary data requires courage, time, and effort to collect. Questions must be proposed and written down, the right people need to be approached, and answers have to be analyzed in an unbiased manner (again, see Chapter 6 for workable suggestions on how to achieve these objectives). Don't be afraid to ask for help. Knowledgeable people who have been through this process before will greatly add to the validity of research results. Examples of primary data collection include:

1. *Observing the Behavior of People.*
   - Posing as a customer to see what a competitor is doing
   - Counting the number of customers that walk into a similar business or stop in front of a display
   - Showing preliminary ads or samples to customers in order to gauge their reaction
   - Investigating vehicular traffic flow patterns and/or the location of competitors
2. *Telephone Interviewing*

Phoning potential interviewees is a fast, efficient way to speak to large numbers of people. Numbers from neighbourhood or membership phone books can provide a rich source of contacts because people of similar income brackets usually cluster in the same area. The drawback to phone interviews is that many people use answering machines to screen their calls and/or are offended by unsolicited phone calls (especially during mealtimes). Another obstacle of phone interviewing is that mobile phone numbers can be difficult to obtain.

3. *Group Interviews (Focus Groups)*

Bringing a number of people together (or visiting a group or club that meets on a regular basis) can be a convenient way to gather opinions, explore issues, and probe for information. A good focus group can also act like a brainstorming session in that the input of different people working together usually produces more than what one individual can provide on his or her own. Drawbacks include: pre-existing groups may not paint an accurate picture of the community as a whole, groups can be harder to control than one-on-one interviews (individual voices may not be heard in a group), and some groups may expect payment in return for their time.

4. *Questionnaires*

A questionnaire is a written set of questions designed to obtain and focus a targeted participant's response (which is harder to do than it sounds). Questionnaires can contain *open-ended* questions (in which the respondent provides a short answer) or *closed-ended* questions (in which the answers are already written and the respondent chooses the most appropriate response). Each has its advantages and disadvantages. Close-ended questions can be answered easily and quickly, but because their answers are limited they don't allow for unforeseen options. Open-ended questions can reveal more than closed-ended questions, but can turn people off if they're too personal or require long answers.

Whether open or closed, questions should be simple, clear, concise, and purpose-driven. Don't be afraid to play around with questions if they do not produce meaningful responses. Most people who use questionnaires learn as they go.

Questionnaires should avoid: (1) biased wording, (2) words, terms, or phrases unfamiliar to the general public, (3) poorly phrased questions, (4) difficult, uninteresting, or personal questions, and (5) too many questions. Take a look at the following examples developed to explore the potential market for a new restaurant and the corrective comments below each:

1. Do you enjoy eating in a good restaurant? Yes ( ) No ( )

   Why ask this question? Unless you're speaking to shut-ins, the answer is obvious.
2. What is the most conspicuous and elemental factor in your choice of an eating establishment?

   Huh?
3. Would you be interested in a new restaurant if it opened in this area?

   This is a biased question. Most people would probably say yes, but that doesn't prove anything.
4. How much money do you make in a year?

   Whoa! Too personal!

Following are better questions to ask:

1. On average, how many times a month do you eat out?
2. What features, foods, or services in a restaurant make you want to return?
3. Which restaurants do you hear good things about and/or like to frequent? Why?
4. Do you believe that there are too many restaurants, take-away services, or food-delivery services in this area?
5. Where is the most convenient location around here for a new restaurant to open?
6. On average, how much money do you think is a reasonable amount to spend when eating out?

Although some experts think that questionnaires are vastly overused, their versatility nevertheless makes them popular and easily administered in the following ways:

One-on-One Interviews allow for a longer time to be spent with an interviewee, which offers the ability to demonstrate a product and gauge a reaction. Since an interviewer also interacts directly with his or her interviewees, it makes the answering of questions difficult to ignore. Additionally, most intelligent people, if trained properly, can administer a questionnaire, which means that several interviewers can spread out over a wide area. The downside of one-on-one interviews is that they're usually time consuming.

While the human element is lost with *Mailed Questionnaires*, a mass mail-out can contain descriptive photos and be relatively inexpensive to print and send. Unfortunately, the return rate for mail-outs is notoriously low (sometimes below one-percent) unless some type of incentive is used (i.e.: money or a small gift is offered for a return - or - the completed questionnaire becomes part of a prize drawing).

E-mailed Questionnaires are extraordinarily cost-efficient and easy (and can include photos), but a list of e-mail addresses is needed beforehand. Moreover, most people hate unsolicited e-mail and use protective measures to prevent receiving them. When working with e-mail there is also the possibility of multiple returns from a single source, which will skew results.

Lastly, a *Website Questionnaire* has all the advantages of e-mail, however, the target audience must be Internet savvy *and* be aware that the website exists. Equally, having participants answer questions on a website may offer no control over who responds. Without taking proper precautions, anyone in any location can submit an opinion – or a hundred opinions – thereby skewing the results.

Don't Walk Away from the Hard Work and Time that Research Demands

As stated at the beginning of this chapter, the point behind research is to reduce risk. The more money a business needs to get off the ground, the more proof is needed to ensure that the investment behind it is a wise one. When conducting research don't talk to a half dozen friends and family members, then send out a few questionnaires and consider the task complete. Remember that research is the best way to obtain an estimate of future sales. This can be accomplished in part by exploring the demographic trends listed in the public records of local city halls (e.g.: is the population of the type of people who will buy your product going up or down?). Lastly, always keep in mind that market research is not a perfect science because buying behavior is notoriously difficult to pin down. Therefore, since markets have a tendency to change rapidly, different research sources and methods should be used to confirm results – a process called *triangulation*. In other words, combine at least one or more primary *and* secondary approaches before establishing a conclusion.

Advice from the Pros

- Develop a clear, written vision of what type of service or product you want to sell - then refine it with research. Scottish entrepreneur Michelle Mone, creator of the *Ultimo* lingerie line (and founder of *MJM International*), spent three-and-a-half years researching the design and tailoring of her famous bra before hitting upon a style and shape that satisfied her intended customers. She became a leader in her chosen field thanks to the research she conducted *before* going into business.
- Know your true intentions and why you want to start a business – good research questions will flow from knowing exactly what you want to do and why (see Chapter 6).
- Learn to describe your business (or product) and its benefits in less than thirty seconds. Doing so will enable you to converse with people without boring them - and it will provide more time for the people you are questioning to speak their minds.
- Conduct as much of your own research as possible. This does not mean that you should not ask for help. It means that since you are responsible for your business you should be deeply involved in all aspects of the research process.
- Carry out a pilot study before undertaking a major research project. A pilot study tests research questions and methods against a dozen or so people to determine if the questions asked in a questionnaire, as well as the way they are presented, are thorough and appropriate.
- Don't ignore the competition. When conducting research, find out what potential customers think about your competitors.
- Investigate the costs of producing your product as you explore the potential market. Costs must always be weighed against profit potential before a business can be deemed viable.
- Don't forget to factor insurance needs when researching cost estimates.

Chapter 6
Suggestions for Conducting Business Research

> *In this age, which believes there is a shortcut to everything, the greatest lesson to be learned is that the most difficult way is, in the long run, the easiest..*
>
> Henry Miller

Sometime after the collapse of the Berlin Wall in late 1989, numerous Polish intellectuals, who had previously been living and working outside Poland, journeyed back to their native country to capitalize on the demise of communism as well as a baby boom that had resulted 20-years earlier due to a strict curfew imposed by communist authorities (as reported in *The Economist*, Polish workers took to their beds during this period because there was little else for them to do).

In less than two years, over 350 private higher education institutes sprang up like mushrooms after a spring rain. But by 2009, higher education enrollments peaked; and by 2020 the number of 19-year olds in Poland is predicted to fall to 361,500 – which is half the size it was in 2002.

Many universities, both in state and private sectors, are now under threat because there are simply not enough students to fill available classrooms. The result is that departments and faculties are feeling the pinch and financial cutbacks are taking their toll. International students are being targeted more than ever before with tuition and accommodation costs that are lower than those in their respective countries. And admission standards are reportedly lower than ever. 'My colleagues say that the average student in the 1990s was much better than the current ones,' says Benjamin Stanley, who taught at a university in Warsaw from 2011-2013. He adds that Poland now has too many university students of doubtful academic quality and that too many are graduating with degrees that cannot get them a well-paying job. This sentiment is echoed by former Polish prime minister Donald Tusk, who publically put this situation into perspective for young adults by remarking that it's better to be a well-paid welder than an unemployed social science graduate. (Grove, 2014)

What does all this mean for the entrepreneur? No matter how good a business opportunity is, and No matter how good a business opportunity is, and no matter how successful a business becomes, the need for gathering, updating, and interpreting information for the purpose of benefiting from constantly changing markets - and then acting upon this information - never ends..

Conducting External Research

The moment a business starts trading it cannot stand still. Economic environments and demographics are constantly changing, which means that an astute entrepreneur should not only be aware of what is going on *inside* his or her business, but also the dynamics that are in play *outside* it. And that's because the *external* environment of a business (which the business often cannot control) does affect the *internal* environment (the systems and procedures that operate inside the business). Vigilance and action is therefore required to ensure that a complimentary match exists between the two. Let's start with the external environment. The following steps are designed to help explore the external environment in which an entrepreneur conducts business:

Step #1. *Define what you have and what you wish to do.*

This includes identifying current resources, short-term goals, and long-term goals. Remember to commit everything to writing. The honing of goals and the defining and clarifying of thoughts and solutions always improves during the process of writing.

Step #2. *Evaluate your idea (or product) and the industry to which it belongs.*

Gather as many opinions as possible. Understanding how customers interpret an idea or product is always more significant than the entrepreneur's interpretation. Among the many questions to ask when conducting external research are:

- What is the history of the industry in which the business idea is located (both in general and locally)? Is it on the rise? Is it declining? Why?
- What are the benefits of the product or service?
- What are the product's uses? (see Chapter 24 and the section titled *Uses, Users, and Usage*)
- Is there a real need for the product? How long will that need last?
- Can the proposed product be measured against an existing product? How?
- Can the product be adapted for other more profitable uses? How?
- Will the business have the ability to provide what is wanted, when it's wanted, and how it's wanted?
- Does the product require a previously unforeseen special license, insurance requirement, distribution system, or other expense?

Step#3. *Know your customers*

- Who will use the product? (Be specific. No product can be sold to everyone. A good customer profile takes into consideration: sex, age, ethnicity, religion, income level, education level, stage-of-life [i.e.: singles, students, parents, retirees], transportation needs, etc. Contact a local census bureau for details. In the USA, this information can be accessed at www.census.gov).
- Where are the most ideal customers located?
- Why will customers use the product?
- How will they use it?
- What benefits will they derive from the product?
- How much of the product will they use? Can the product be sold in the right amounts?
- Can prospective customers afford the product – and afford to keep using it?

Step #4. *Demographics*.

- Is the population of the targeted customer base on the rise or is it decreasing?
- What is the current (and projected) economic situation of the area?
- What are the local purchasing trends?

Step #5. *Research the competition*.

- Is there a business that currently provides a similar product?
- Can another business produce the product cheaper or better?
- Will local stores carry the product?

Step #6 *(For existing businesses)*

- What do our customers think of our current business, products, and service?
- Are our marketing programs working? Why or why not?
- How many customers do we know on a first name basis? Have we asked their opinion?
- Are we using purchase and credit records to build customer profiles and data bases? Can we use this information to determine what our current customers might want to buy in the future?
- Do we offer incentives for return visits? If not, why not - and what can we do about it?

Step #7 *Analyze your research*

- Do the demographics support a sustainable market?
- Does the information gathered from steps 1-5 fit into the demand needed to sustain sales?
- Do any changes need to be made to my idea or product?
- Will providing/producing the product require more capital (or time) than was originally thought?

Making Adjustments

Don't ignore research results if they don't reveal what is expected. Almost every business idea either needs a bit of tweaking or an outright alternative somewhere along the way. 'Negative results should be seen as an opportunity, not a threat,' says the owner of *Arpi Holding* in Oslo, Norway. For example, if the entrepreneur needs more money than was originally envisioned, perhaps he or she can sell the original idea to an existing company. Or maybe the business will have to start small and stay small for a longer period of time than previously thought (there's nothing wrong with that). Perhaps an office or shop can be rented or leased instead of purchased – or maybe working from home is a better option (if licensing laws permit it). If research shows that customers don't want to go out and buy a proposed product, might they consider having it delivered instead? For example, if a restaurant is envisioned but no one seems interested, would customers take to a specialized service (e.g.: meal deliveries, catering, wholesaling, take-aways, cooking lessons, etc)? The point is to investigate all the alternatives and stay open-minded. Determining whether an idea should be doggedly pursued, modified, or abandoned, is one of the most difficult decisions an entrepreneur has to make.

Conducting Internal Research

Assessing a business's internal environment requires honesty and openness and should not rely solely on the judgment of one person. Whether a business is in the design stages or has been up and running for years, regular internal evaluations should address the following:

- *Skills*. How well can (or will) the business and its people do what is supposed to be done?
- *Systems*. How efficiently does the business serve its customers?
- *Structure*. Does the set-up of the business promote peak performance?
- *Values*. What are the priorities of the business?
- What are the *strengths and weaknesses* of the person or people behind the business?
- What are (or will be) the *overhead costs*?

Researching the Cost of Overheads

Expenses associated with the everyday running of a commercial enterprise are called overheads. Generally speaking, overheads must be paid whether or not a product is made or sold. Overheads are therefore an important factor in determining long-term costs. Examples of overheads include:

- Raw material costs
- Equipment and supply costs (including raw materials and office supplies)
- Insurance premiums
- Telephone bills, printing costs, leasing or hiring fees, travel expenses, repairs, etc.
- Legal fees
- Rent and utility expenses
- Advertising and marketing costs
- Shipping and storage fees (the monthly costs of transporting and warehousing)
- Wages and salaries
- Accounting fees

Many of the successful business operators interviewed for this book said that they always eye their overheads with a desire to reduce them (e.g.: switching to lower-cost suppliers, finding cheaper premises, reducing packaging needs, etc.). Put another way, endlessly exploring new ways to conduct business operations helps ensure that expenses are kept low, less waste occurs, and greater efficiency becomes standard.

SWOT Analysis

Much of the information from external and internal research can be graphically represented by what is called a SWOT analysis (SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats). The purpose of a SWOT analysis is to depict internal and external environments in an easy-to-read format. When a clear picture of the opportunities and challenges faced by a business are laid out, it becomes easier to identify, add to, and investigate areas that need to be addressed. FIGURE 6-1 on the following page shows how an ice cream parlor can be analyzed by a SWOT analysis. As the diagram illustrates, *strengths* and *weaknesses* refer to internal business factors, while *opportunities* and *threats* correlate to outside environmental influences.

Figure 6-1: SWOT Analysis example

(**Internal factors**)

STRENGTHS

Owner has experience in food service
Owner has many connections in the industry
Owner willing to take an educated risk
Owner willing to work long hours
Must buy (not lease or rent) all equipment

WEAKNESSES

Owner has never run a business
Owner unsure of tax and accounting practices
Help from family is not forthcoming
Must buy (not lease or rent) all equipment

(**External factors**)

OPPORTUNITIES

Local area has lots of tourists
No portable ice cream vans being used
Potential market for catering to parties/functions

THREATS

Several restaurants offer take-away ice cream service
Local government frowns on small businesses
The ice cream market is highly seasonal

Note that the more honest and thorough an entrepreneur is with his or her SWOT assessment, the better the chances are of tackling the challenges involved with starting up a business. Note also that most businesses will have many more critical factors listed (i.e.: factors that are crucial to business success and can be measured against competitors) than the few depicted in the diagram.

Advice from the Pros

- When starting a business, don't remain focused on the internal happenings of the little kingdom you plan on running. You must also stay on top of external trends (demographic changes, competitor, marketing schemes, and so on).
- Learn to handle negativity. The point of research is to locate problems and openly discuss them – not shy away from them or deny they exist.
- Be open to advice and feedback. Listen and act upon what others say.
- In the never-ending battle to keep expenses down, focus on eliminating waste and improving efficiency rather than simply cutting costs. All too often, constantly cutting costs results in a reduction of quality that can turn off potential customers.

Chapter 7
Chosing a Location

> *Community cannot long feed on itself, it can only flourish with the coming of others…*
>
> Howard Thurman

Businesses that perform their function where a customer is located (e.g.: gardeners, plumbers, painters, etc…), as well as operations that do not require direct face-to-face contact with clients (website-based businesses, writing, virtual assistants, online tasking, etc…), usually only require a small workplace (such as a spare bedroom or a garage) from which administrative and preparatory operations can take place or where materials are stored. The money saved if these types of businesses don't pay rent can then be passed on to customers.

For many entrepreneurs, however, being located in a convenient, well-travelled, public place that customers can easily travel to is vital to business survival. This is because potential customers will usually forgo a business if it's too far away or they're forced to hunt for it. Equally as important is that whether a business is located in the middle of a city, the top right hand corner of a phonebook, or an Internet web page, a good location should always meet two important criteria:

1. it should be visible and accessible and,
2. it should require minimum decision-making on the part of the customer.

Questions to Ask When Choosing a Business Location

The first step in choosing a good business location is to identify the wants and needs of the desired customer base. A location must then be found that meets these needs. For example, most businesses dependent on customer visits should be easily accessible by foot, public transportation, and cars.

Questions than can help guide an entrepreneur through the criteria of a good location include:

- Is the local economy growing?
- Are building and construction on the increase?
- Will the reputation or layout of the town or neighborhood help or hinder trade?
- Will customers be driving their cars or walking?

Most customers value ample parking space, proximity to public transportation routes, or sites that promote heavy pedestrian 'walk-by' traffic. Additionally, it should be determined if nearby businesses will draw or repel the type of customer the business is seeking. Up-market restaurants, for example, have been known to do poorly when situated near churches, schools, graveyards, factories, or businesses that produce odors or noise. Likewise, retail operations may find it tough going in front of fire hydrants or bus stops because these obstacles can hinder deliveries. The proximity of competitors is another concern. Can your proposed business flourish next to a larger, flashier, and more cost efficient operation? If not, perhaps it should be situated where it has a greater chance of succeeding. Additional considerations for choosing a good business location include:

- *The Local Job Market*. If your business will rely on the employment of others, consider what type of skills you'll need (as well as the number of employees you'll need) and find out if there are people that fit these requirements in your area. A location that has minimally qualified job applicants usually means that more money may have to be offered to attract suitable staff from far away. Remember, it's not the fault of the town or area in which you've located if you can't find skilled employees.

- *Home*. Apart from possible tax advantages, operating out of a home is a good way to conserve cash or allow for a bit of breathing space before a costlier, more expansive premise is acquired. Note, however, that planning or zoning permission may restrict customers from traveling to a house or apartment because many neighborhoods prohibit customer traffic in residential areas. Likewise, many neighborhoods ban the displaying of signs, which may be the only way customers can find your business. Check local laws before turning a spare bedroom into a work place (which zoning restrictions may prohibit *even if no customers will be visiting*).
- *A Local Area* may be more advantageous in contrast to setting up shop in another town or city. This is because community contacts are vital. Knowing the people in a local area helps form the nucleus of a customer base and may provide an additional edge with a local bank. Whether or not you set up shop in a familiar or unfamiliar area, however, consider joining the local Chamber of Commerce, a nearby Visitor and Convention Bureau, a regional business association, a city council committee, or some other local business organization. Several of the business owners consulted in the writing of this book stressed that the key to their success lay in networking with these types of organizations.
- *City Centers* offer a mixed bag of advantages and disadvantages. Advantages include possible inexpensive rents or leases (perhaps due to the area being run-down), renovation possibilities (which could result in tax breaks), and accessibility to nearby businesses and workers. Disadvantages include lack of parking, possible shortened consumer shopping hours (most people tend to leave city centers after their workday has ended), and building itself, which may require renovation work.
- *Shopping Centers and Malls* offer space that is usually rented (or leased) per square meter or square foot. Prices can range from the affordable (a few thousand dollars per year) to the very expensive (several hundred thousand dollars per year). Advantages include plenty of pre-arranged parking space, lots of walk-by trade, and a location close to businesses that draw in like-minded customers (for example, clothing stores often do better when grouped with similar shops). The disadvantages of operating in a shopping mall or shopping center include unseen expenses hidden in lease agreements (e.g.: heating, air-conditioning and ventilation costs, annual real estate tax assessments, monthly maintenance fees, and merchants association dues that pay for shopping center promotion and event costs). Therefore, before moving into a shopping center or mall, read and understand the fine print on the lease agreement (see *Leases*, below). Further worries include the fact that in the USA, shopping malls have been closing at an alarming rate due to the alarming number of retail bankruptcies and department store downsizing. *Green Street Advisors 2017 Mall Outlook* estimates that more than 300 malls in the USA will close over the next few years. That being said, some of these malls are now being repurposed and subdivided into thriving areas for smaller businesses. (Gustafson, 2017) The message: do proper research before investing in what could be a volatile location.
- *Stand-Alone Premises* (defined as a free standing building that can be owned or leased) are sometimes less expensive than shopping center rents when it comes to monthly payments. A stand-alone structure may also provide the additional advantage of allowing an entrepreneur to purchase the property rather than lease it. For example, five or ten years of leased space in a shopping mall may total half a million dollars, which will never be seen again. Yet that same amount of money invested in a mortgaged building may be returned in the future - along with a profit – when the building is sold. As always, make sure a stand-alone structure has parking availability, is easy to find, and is close to customers. Additional concerns include checking to ensure that the structure is sound and that the roof doesn't leak – as well as determining if there is ample electricity and wiring and adequate communication availability. (Author note: a former student of mine almost went bankrupt when he discovered that the building he had just purchased in Brazil to house his new business needed to be completely rewired in order to

accommodate the addition of numerous computers and other electronics; this resulted in visit from local authorities who stated that the interior sprinklers and exterior fire escapes also had to be updated to fall in line with fire codes. Finally a new roof had to be installed to carry the weight of a bigger air conditioning unit that was needed to offset the heat generated by the new computers and electronics).

- *Industrial Parks* are ideal locations for warehouses or manufacturing centers that need access to convenient transportation routes. Because industrial parks consist of many businesses placed together, they can also provide a leg-up on business networking. Some governments even subsidize the costs of moving to, and working in, a local industrial park. Check local industrial real estate offices for details.
- *Business Incubators* are buildings that house several separate firms under one roof, thereby allowing expenses such as utilities, maintenance, receptionist duties and other services to be shared by several companies. Because local governments or business promotion agencies often subsidize business incubators, interested entrepreneurs should consult a local business real estate broker for more information.

Learning about Leases

A business lease is a legal document that allows a company to conduct trade within a premises that is owned by someone else. That someone else is called a landlord. Bear in mind that a landlord is a businessperson. As such, he or she has an objective to make a profit based on supply and demand.

Leases can involve any amount of time and money however they usually require a commitment of three to five years and are paid on a monthly basis. The terms of a lease should specify the method and dates of payment, insurance needs, selling restrictions, and hours of operation.

When confronted with a lease agreement, use a pencil to mark or circle anything that is not understood. Then have what you don't understand explained by someone with expertise who has no vested interest in the agreement (most experts advocate hiring an attorney for this purpose). Additional advice to consider *before* signing a lease includes:

- Have the premises inspected by a licensed building inspector.
- Check local demographics to ensure that they match the requirements of the business. Also, find out if any major construction, renovations, demolitions or other works will be done near the property at any time in the future. (Don't ask the landlord. Instead, contact the city or town council.)
- Beware of lease percentage clauses that allow for a higher rent to be charged if the business brings in high profits.
- Ensure that the lease includes an option to renew. A renew option allows a tenant to continue his or her operations (without obligation) for a set period of time, at a previously agreed upon cost, when the original lease expires.
- Determine what the landlord is responsible for. A *turnkey* lease may include fixtures, fittings, floor coverings, lighting, partitions, wall preparations, and regular repairs, which means a higher monthly fee. A regular lease may include nothing more than an agreed upon floor space (which translates into higher out-of-pocket start-up expenses for the entrepreneur).
- Find out beforehand if the premises can be used for other purposes. If you decide to make changes in your business after a lease has been signed, you don't want to be faced with legal challenges.

Advice from the Pros

- Don't balk at paying a higher price for a good location. Check your budget and think in the long-term. A cheaper lease or cheaper rent prices may mean fewer customers.
- Customers instinctively avoid unkempt buildings as well as those that have a bad reputation or are in disrepair. Talk to neighbours or other tenants to determine if the building you're interested in is well maintained.
- Visit the site you're planning on leasing or buying at different times of the weekday and weekend (particularly at night) to see what goes on there. What you discover may surprise you.
- Beware of 'dead sites' (areas that customers avoid for one reason or another). Dead sites exist even along popular streets and in successful shopping areas and shopping malls. Again, visit a site frequently and at all hours before you invest in it.
- Ensure no legal actions are being taken against the holders of the building or premises you're interested in purchasing, renting, or leasing.
- Consider setting up your business at a place where people have to stop and pause – such as a pedestrian crossing, a bus stop, an intersection, or a parking area. This will ensure maximum visibility.
- Seek help before signing a lease. Spending money on professional advice may prevent spending a lot more on rectifying problems that should have been avoided in the first place.
- Before signing a lease or making a purchase, be sure the interior and exterior of a premises are up to local fire & safety (and other) codes and will support electrical, cooling, weight, and any additional needs of your business.

Chapter 8
Finding a Manufacturer, Supplier,or Distributor

> *Hard work spotlights the character of people. Some turn up their sleeves, some turn up their noses, and some don't turn up at all.*
>
> Sam Ewig

An experienced entrepreneur in Nancy, France owns a business that sells neckties, scarves, shirts, cufflinks, pens, and pencils to private companies and associations. What makes her business unique is that she can engrave the names and logos of her customers directly onto the merchandise she sells. Over the years she's developed a good relationship with many of her suppliers, most of whom took a long time to find. In fact, during the first year or two of operations she used to have her merchandise engraved or embroidered by another company. Throughout this period she watched in exasperation as deadlines weren't met or design patterns didn't come out quite the way she expected. One supplier she used went bankrupt while she awaited an order. Bit by bit, however, she purchased her own engraving, embroidery, and silk screen machines so she could perform all her own personalizing and avoid such problems. Experience taught her that buying unmarked products and engraving them herself is cheaper and easier (not to mention less frustrating) and generates greater profit margins. That being said, she fully understands that no business is an island. No matter how independent she wants to be she still must rely on a steady stream of manufacturers and suppliers to provide her with quality merchandise and materials in a timely and cost-efficient manner.

Beginning the Search

Whether you're seeking a service provider or a manufacturer that makes product components, made-to-order packaging materials, or ready-for-sale merchandise, finding a responsible and professional organization that provides exactly what is needed when it's needed can be a lengthy and arduous task. Most experienced professionals insist that rushing this process almost always leads to future headaches, which is why taking the time to be thorough and selective is often recommended. 'Good contacts with suppliers are worth the effort,' insists the owner of *Maxi-Service Auto* in Minsk, Belarus, 'a first-rate supplier is not only someone you can rely upon, (he or she) can also suggest things you never thought of or help explain matters no one else can'.

Keep those words in mind when undertaking the following steps to track down a reputable manufacturer or supplier (or distributor):

1. Write down and define *exactly* what it is you need (i.e.: including *all* the components of the product you're selling and its materials including the printing and packaging requirements, delivery requirements, and so on). Note that if your product and its packaging conform to standard sizes it may save you money.
2. Determine the minimum standard production run for the product (or its components). For example, most manufacturers only produce large quantities of whatever it is they make, which varies from producer to producer. It's therefore quite possible to end up with 500 of one needed component from a specialized supplier and 1,000 of a different component from another supplier. Prepare for this discrepancy.

3. Start searching for the names of manufacturers and suppliers. The best names usually come from referrals, but if a referral is not forthcoming check out:

- the books and magazines listed in Chapter 5
- the www.yellowpages.com website
- the *Encyclopedia of Associations* (find an association that is related to whatever it is you need, contact it, and ask if it knows any good manufacturers or suppliers)
- industry directories
- trade journals
- the *Thomas Register of American Manufacturers*
- trade shows
- the six-digit NAICS code (**N**orth **A**merican **I**ndustrial **C**lassification **S**ystem) of whatever it is that's needed. Every product and service category in Canada, Mexico, and the USA has an NAICS number assigned to it. Find this number at www.census.gov/naics and use it to locate suppliers, manufacturers, and retailers of product or product components. The names and contact details of the businesses listed will be classified under directories such as *Standard and Poors*, *Dun & Bradstreet*, or other reference sources available in local libraries. The European version of this system is called the *Classification of Products by Activity* (CPA).
- 'Green' or environmental-based suppliers can be found on websites such as: www.letsgogreen.biz; www.thegreenguide.com; www.climatecounts.org; www.ecomall.com; www.greenhome.com.

4. Contact interesting or reputable suppliers and start asking questions. If a supplier won't answer your questions then you're speaking with the wrong one. Questions that need to be answered include:

- Are you licensed?
- Do your materials and work practices meet state and federal requirements?
- Are the materials you work with fire resistant, non-toxic, eco-friendly, etc?
- Do you guarantee your work?
- Will you supply credit references?
- Can you produce a prototype or sample? If not, why not?
- How much must I order and how much will it cost? (If the manufacturer has to outsource an order, consider contacting the outsourcer directly. Most manufacturers charge a handling fee for work that is contracted out.)
- What are your payment terms?
- While you manufacture my order - and if so do you charge for storage?
- Do you work with a reliable shipper? Do they provide any discounts?
- How can my production costs be lowered? (Most manufacturers can recommend different assembly procedures, alternative materials, or a whole host of cheaper options if asked.)
- How long will the order take to manufacture?
- How long will it take to ship the order?
- Will the order be insured?

5. Manufacturers, suppliers, and distributors often use technical terms and industry specifications that are unfamiliar to the layperson. Don't be intimidated. Learn the lingo as you go.
6. Don't be swayed by friendly salespeople or the fact that a supplier or distributor is conveniently located in your vicinity. Professionalism, reputation, and good service are far more important than proximity.

7. If possible, visit a prospective supplier and speak to him or her in person. Ask for a tour of the operation and learn how their company flows and performs. A lot will be learned this way and the interest you show will probably be seen as flattering.
8. Write the names of the best companies in preferential order. Check their credit references via the *Better Business Bureau* (in the USA), the *Better Payment Practice Group* (in the UK), *Dun & Bradstreet* (in the USA) or a local bank to ensure that they aren't in financial trouble. If references are unobtainable, be wary.
9. Contact preferred candidates and start negotiating for lower prices, better delivery times, and/or better conditions. If you don't ask for these specifics, you will never get them.
10. Once an agreement has been reached, get everything in writing.

***Keeping* Manufacturers, Suppliers, and Distributors**

Once honest and reliable suppliers or distributors have been found, move heaven and earth to cultivate and maintain a good relationship with them. The last thing a new business operator needs is for the search to start all over again. Indeed, a good relationship with an astute supplier can often keep a small business updated with the latest trends, services, and ideas, says the owner of *SA Batidecor* in Ans, Belgium. With that in mind, following are a few suggestions for creating (and reaping) a long-lasting relationship with suppliers, manufactures, and distributors:

- Pay on time. Paying on time builds goodwill and often allows for enhanced credit lines (which may come in handy in the future).
- *Ask* for advice, suggestions, and opinions. Most knowledgeable manufacturers, suppliers, and distributors have a lot of good ideas and are only too pleased to share them. Use this information to your advantage.
- Be generous with deadlines and avoid unreasonable demands.
- Show loyalty.
- If problems are encountered with an order, report them immediately in a calm and rational manner. Do not brush aside small discrepancies. Little problems can fester and grow into bruising conflicts.
- In short, entrepreneurs should act with their suppliers and distributors the same way they want their customers to treat them.

Selecting an Overseas Manufacturer or Supplier

To keep costs down, many businesses buy direct from foreign companies to take advantage of cheap labor or cheap raw materials. A good place to start looking for foreign suppliers is the Internet's largest foreign manufacturing directory: www.alibaba.com. After a perspective company has been pinpointed (using the same 'Beginning the Search' guidelines as above), contact your national embassy or consulate in the country where the company is located. The people that work in these offices may have vital information about the companies you wish to do business with. Basic concerns that will need to be addressed include:

- Quality issues and warranties (Are they different from what you expect or what your country allows?).
- The use (by the manufacturer) of substandard materials. (What costs will be incurred if you have to return substandard materials or products to the foreign supplier?).
- Transport and logistics costs.
- Communication costs (mail, telephone, personal visits…).
- Currency fluctuations and payment requirements.
- The cost of inventory while in transit.

- Legal requirements and bureaucracy.
- The potential risk of intellectual property infringement (i.e.: having ideas stolen)

  (For more information on dealing with overseas companies see Chapter 34).

Advice from the Pros

- Because of their size, small businesses often react faster and provide more personalized service than large companies. Therefore, keep an eye out for small businesses in your search for suppliers.
- Don't let low prices be your ultimate determiner. Every supplier and distributor is entitled to a profit and overall quality, consistency, and reliability are more important than the saving of a few pennies.
- Take the time to sit down, speak with, and listen to, salespeople. Not all salespeople are bad and they just might be able to help you with what you're looking for.
- Communicate regularly with the people you do business with. Once you've found good contacts, regularly remind them of how much you enjoy their business by providing them with feedback. Only then can you expect the same in return.
- Never stop looking for new manufacturers, new companies on the scene, new innovators, new ideas, and new directions to go.
- If your budget is not big enough to hire an employee who has the knowledge and skills that you require, consider bartering for what you need. (Author's note: a golf course I once built for an employer greatly benefited from the twice-a-week input of a man who was considered to be the nation's best landscaper. The advice he gave, which most other people had to pay an arm and a leg for, was priceless - yet all he wanted in exchange for his services was a free club membership which I was happy to provide.)
- If a supplier or manufacturer can't be found, consider this deficit as an opportunity to produce whatever it is you're searching for.
- Plan a trip to an industry trade show when looking for suppliers. You'll be glad you did.

Chapter 9
Business Models

We choose our joys and sorrows long before we experience them..

Kahlil Gibran

The term 'business model' first appeared in the 1950's. It has since gradually gained favor and accumulated many complex definitions in business literature and in the business academic community. For the most part a business model refers to a workable business strategy or the way an organization does business. A business model can therefore be based on a sales technique, a pricing strategy, the wants and needs of a target market, or any method that offers a product or service in a way that capitalizes on what the business does best and what customers want most. In a fast food restaurant this can translate into quick, one-on-one service (i.e.: taking and filling customer orders at a counter with the help of a displayed menu). In a retail business it could mean offering lower prices by cutting out a middleman. For manufacturers it might involve ceasing to think like a product seller and becoming a service deliverer instead. Because business models and their success rates vary considerably, the trick behind choosing a successful model involves creating a complimentary sales-oriented environment that correctly balances a product, the needs of its customers, and the business where the product is made or sold (see Chapter 25 for information about competitive advantages).

What's Good for the Goose is Not Always Good for the Gander

How is an appropriate business model selected? Mostly through research followed by trial and error. Research not only provides insight into the potential profitability of a product it can also point out how a product can best achieve profitability. Trial and error involves bending and shaping ideas into practice because when it comes to business models one size does not fit all. What works in one location or for one product or set of customers may not work for another. Put another way, good products or services can (and do) fail if they aren't offered to customers properly.

Trying to Get It Right: The Paradox of Business Models

(Author note: Big businesses are used as examples here because small business failures are notoriously difficult to document. Most small business owners 'disappear' after their business collapse, and if they are found, and are willing to talk about what happened, they often blame everyone and everything except themselves.)

Sales Volume versus Profit Margins

Which is more profitable: selling a product at a 30% mark-up or selling it at a 2% mark-up? Colombian born economist Bernardo Trujillo, who helped revolutionize the food industry in the 1940's and 1950's, suggested the latter. Prior to this time, most food was sold in specialty shops where suppliers and retailers endeavored to keep prices artificially high. Furthermore, many retailers chose not to sell food because: (1) food could only be marked up a few percentage points (otherwise it was seen as too expensive) and, (2) it had to be sold quickly or else it spoiled. The better option, it seemed, was to sell household wares, furniture, tools, clothing, and other non-perishables that supported profit margins or mark-ups of up to 40% or more.

Bernardo Trujillo, however, reasoned that food had the potential to bring in more money than non-perishable items because people have to eat every day. Percentages aren't put into a bank, he said, only money is put into a bank. Put another way, tomatoes may only allow for a 2% mark-up, but under the right conditions hundreds of tomatoes can be sold in a single day thereby generating a lot of instant cash. The same goes for bread, eggs, milk, and other grocery items. Although only a small amount of money is made on each, a high volume of sales translates into higher profits. It was this philosophy that led to the modern day supermarket1, which, in turn, led to the creation of the hypermarket; these types of businesses operate under a model of buying in bulk, adding a low profit margin, and aggressively selling as much as possible. Hence the adage, 'Pile it high and sell it low'.

Profit Margins versus Sales Volume

The almost universal success of hypermarkets and supermarkets would seem to suggest that a business model based on buying merchandise in bulk and selling it cheaply is a sure-fire way to business success. Unfortunately, business models aren't quite as simple as that. For example, in January of 2006 the executive in charge of *Waterstone's* bookstores (based in the UK) handed in his resignation after the company went from a £13.5-million profit to a £300,000 loss in just one year. Rather than admit any personal blame, the executive attributed his poor results to increased competition from supermarkets and online retailers - not the price cuts and three-for-two offers he had initiated to maximize sales (in some cases, discounts of up to 60% to 70% were offered to customers). Meanwhile, *W H Smith* (which is the main rival of Waterstone's) posted an impressive profit of £80-million. The chief executive of W H Smith attributed the company's success to refusing to sell merchandise cheaply - insisting that higher price margins are more lucrative than high sales volumes.

So much for piling it high and selling it low.

High Prices versus Low Prices

It's commonly assumed that low prices always attract customers and high prices turn them away (rich folks love low prices and poor folks need them, declares one old maxim). Yet according to London-based personal growth consultants *PTI International*, on average, the higher a business's prices are the less customers tend to object (the rationale is that most people believe price to be directly commensurate with value). Small firms need to wise up, says PTI International, because large business customers have no scruples when it comes to exploiting the commercial naiveté endemic in small businesses. PTI goes on to claim that its clients have boosted their annual turnover by as much as a quarter of a million dollars by quoting higher prices to new customers. If you aren't getting price objections from your customers, PTI continues, you're under-selling yourself. Of course this begs the questions: (1) Do you have what it takes to charge exorbitant prices? (2) Will your customers pay them? and (3) Is your product, or service of high enough quality to justify a higher price?

Market Share versus Profitability

The legendary South African retail chain *Pick 'n Pay* began its climb to superstar status in 1967 with four corner markets located in Cape Town. Thirty-eight years later those four shops grew into 273 supermarkets and hypermarkets as well as 176 franchised stores that employ over 30,000 people. The key to *Pick 'n Pay*'s success, says company chairman Raymond Ackerman, is placing profitability over market share. Ackerman's argument is that too many growing businesses work tirelessly to acquire market share by building or buying more outlets. By contrast, Ackerman didn't care how many stores he had so long as each and every one of them made a profit. As a result, *Pick 'n Pay* went roaring ahead in profitability (and growth) while its nearest rival went steadily downhill on an endless chase after market share. Ironically, Ackerman also admits that the reason why *Pick 'n Pay* failed in its attempt to expand into Australia was because he was only able to open one store – which didn't garner enough market share to remain profitable. Such is the paradox of business.

The concept of one stop food shopping began, and failed, in America in 1896 with Frank Munsey and his chain of *Mohican* outlets. Fifteen years later, *Piggly Wiggly* reintroduced the concept more successfully. The practice of selling different goods under one roof took time to develop because suppliers and retailers, often with government help, fought to keep prices high. Eventually, however, prices dropped thanks, in part, to bulk buying and selling. In Europe, French firms *Carrefour* and *Auchan* pioneered the supermarket concept. In Britain, *Tesco, Marks & Spencer's*, and *Sainsbury's* led the way. In Australia, Coles benchmarked the idea and in South Africa it was Pick 'n Pay. Hypermarkets (giant superstores that sell food and non-perishables) were pioneered by French firms *Carrefour* and *Euromarche* and copied by Pick 'n Pay. Later, American entrepreneur Sam Walton visited South Africa, toured several *Pick 'n Pay* outlets, and returned to America where he used the ideas he saw to enhance his (then) small chain of *Wal-Mart* stores.

Less Choice versus More Choice

Customers want more choice. The more choice the happier the customer - or at least that's the conventional wisdom. Some years ago I was named as the manager of a business that offered dozens of local and international travel tours amongst its services. Local tours did well, but year after year the global destination packages never seemed to interest anyone. Time and again my employees thought up ever more exciting trips - each more exotic than the last - but every planned overseas excursion ultimately ended up attracting so few clients that it had to be cancelled. Where were we going wrong? To make a long story short, we reduced the number of international trips from twelve to three – and watched with astonishment as they quickly filled up with customers. It turned out that by offering too many choices we were baffling our clients and spreading our product line too thinly. We learned the hard way that sometimes less really is more.

Competition versus Cooperation

One of the oldest axioms in any business book is the capitalistic notion of survival-of-the-fittest. In a free market economy it's claimed that competition helps produce strong, lean businesses that facilitate quality and ensure low prices. Yet if that's true, why did automakers *Toyota*, *Peugeot*, and *Citroen* join together in the Czech Republic to develop a new car currently being sold by each under its own brand name? Likewise, why do dozens of tour-related business across the Australian outback now help one another rather than compete against each other (which is what they used to do)? The answer lies in the concept of cooperative networking – the act of sharing ideas, comparing problems, and forming partnerships to enhance business enterprise. For as long as people have been trading and competing there have been cooperative efforts by astute business people to try and complement one another rather than slug it out in the marketplace. For example, working with a competitor can help a business reduce costs (particularly those of a new start-up), achieve advantages in scale and speed, enhance competitiveness, create new capital, and stimulate new business opportunities by conducting joint purchases, sharing resources, merging employee training programs, and much more. What does this mean to the entrepreneur looking for a profitable business model? When conducting market research, don't just look at the size and scope of the market you wish to enter. Also size up the *competition* and consider ways your business can fit in amongst it. (For more on this topic see Chapter 32)

Lean Thinking versus Business as Usual

One way businesses can reduce costs and overheads is through the maniacal elimination of waste in all its forms - a concept pioneered by Henry Ford and improved upon by the *Toyota* automotive company. In its early days, Toyota preached that maximizing production capacity (i.e.: making as much of a product as possible) is almost always a mistake. Instead, the company advocated finding out what its customers wanted (including the amount they wanted) and providing only that. Everything else was considered a waste of time, money, and resources. The *Dell* computer company successfully entered a crowded (and growing) market with this concept. As journalist Thomas Friedman describes in his book *The World is Flat*, Dell succeeds because it manufactured a product *after* it received a customer order. This means that Dell had a paying customer for every computer it made *before* that computer was manufactured. Dell therefore had no expensive inventory of computers nor, at first, did it own any retail outlets. One of the company's few production expenses involves maintaining a supply of computer parts, but these parts can be used in a variety of configurations so each part is always used sooner or later. Most importantly, Dell never got stuck with an unsold product because in the first years of operation only what was needed by a customer was ever actually made. 'To hell with your competitors,' say the authors of the book *Lean Thinking* (Womack & Jones, 1996). 'Compete against *perfection* instead by identifying all activities that are wasteful (i.e.: those not directly servicing customers) and eliminating them.' The result is a business that caters solely to customer wants and needs rather than wasteful practices.

Selling versus Sales *and* Service

In 1989 and 1997, the *Boeing* aircraft company tried unsuccessfully to keep up with a deluge of orders. When it found that it couldn't, several orders had to be cancelled, which did not make its customers happy. Paradoxically, in 1993 and 1998, the company had laid-off workers because of a decrease in orders. This boom-and-bust cycle is typical for many businesses and industries, say Paul Hawken, Amory Lovins, and Hunter Lovins (authors of the book *Natural Capital*), but such cycles can be smoothened if turning a product into a service is added to the mix. For example, during tough economic times companies and consumers usually avoid making expensive product purchases, yet the *benefit* these products provide may still be needed. As Swiss 'product-to-service' pioneer Walter Stahel explains, most buyers seek the *benefit* a product provides, not necessarily the product itself. Taking this into account, the *Dow Chemical* company now enjoys an extensive business turning its chemical products (many of which are toxic or flammable) into a service instead of selling the chemicals. Selling chemicals leaves customers with unwanted safety, handling and disposal responsibilities. Through a service arrangement, however, *Dow* sells only what a paying customer needs, which is what its chemicals do. *Dow* performs the application and then cleans everything up. Afterward, it takes the used chemicals back to its factory to recycle and repackage them for the next job. In other words, *Dow* makes money by repeatedly selling the same raw materials, and *saves* money because it requires fewer raw materials (which is good for the environment). Customers love the arrangement because they only expenses incurred are for the benefit they want. With a little imagination, product-to-service thinking can be used in almost any industry. For example, in the Netherlands the photochemical industry leases out its chemicals and collects them afterward for reuse. In Switzerland, the *Schindler* elevator company leases a 'people moving' service in addition to selling its products to those who want to own them. *Xerox* operates a similar 'benefit only' service as does an industrial furnace manufacturer in England and the *Pitney Bowes* postage meter company (to name but a few). Rather than manufacture large quantities of a product in the hope that it sells, businesses that sell a *benefit*, (1) focus on what customers want, (2) extend the life of their products and raw materials through optimal re-use and maintenance, (3) control waste and costs, and, (4) minimize financial risk. Moreover, adding a service facet to a product portfolio creates jobs, provides employees with more skills and job security, and smoothens slow economic periods when sales traditionally decrease. For more about this concept and similar business models, please download our free book *The Sustainable Business*

Persistence versus Stubbornness (or Knowing When to Stop and Change)

Enterprises that stick to a business model which is wrong for a product or customer base can find themselves going out of business very quickly. Experienced practitioners suggest that entrepreneurs should change and try a new approach before the worst happens, as the following case studies illustrate:

Example 1. In the 1980's, the *Coca-Cola Company* decided to change its centuries-old formula. The $4-million in research that led to this decision resulted in a product called 'New Coke'. Unfortunately, the company's research failed to consider the loyalty that customers held for the old formula and the business ended up losing market share and millions of dollars in revenue as a result. Eventually, *Coca-Cola* reinstated its old formula to appease its customer base, but not before millions of dollars had been wasted trying to convince customers that *they* were wrong and the company's flawed research was right.

Example 2. Ray Kroc, the legendary owner of *McDonalds*, took a handful of California burger stands and turned them into a global conglomerate. Throughout his years as chairman, however, he was notorious for coming up with new menu items that failed miserably. Indeed, it's been said that just about every food idea he came up with proved to be a loser. Fortunately, Kroc harbored two powerful business strengths: (1) he knew when to cut his losses (something few business people seem to be able to do) and, (2) he graciously learned to accept ideas he was initially dead set against, but which proved to be profitable. For example, Kroc hated the notion of selling a two-tiered hamburger called the 'Big Mac' – until the defiant franchise owner who came up with the idea went ahead and started selling it against Kroc's orders. Immediately the Big Mac proved to be a virtual license to print money – and just as quickly Kroc changed his mind and welcomed it with open arms. Kroc may not have been gifted when it came to inventing products, but he certainly knew when to put aside his ego and focus on making money (Mingo, 1994).

Example 3. For years the American public snubbed Automated Teller Machines (or cash-points) because most people preferred conducting their banking transactions with a live human being. Then a massive snowstorm in New York shut the city down and the benefit of obtaining money at any hour became quickly apparent. The *Citicorp* bank pounced on this opportunity by launching a series of quickly-put-together television ads that showed a beleaguered customer in a snowstorm collecting cash from an ATM while those around him, who were equally in need of cash, looked on helplessly. What this all means is that contrary to conventional wisdom sometimes a company can sell what it wants to sell rather than what customers want to buy – if its timing and the circumstances are right.

Example 4. Most people seem to forget that computers were once relegated almost solely to accounting departments, universities, and the workbenches of computer nerds because they were too complicated to operate. Then *Apple* computer designed an easy-to-use point-and-click program (complete with an innovate tool called a 'mouse') that made computing accessible to everyone. As a result, businesses that had refused to embrace the promise of computer technology (*IBM* being the most obvious example) suffered serious setbacks as smaller companies rushed in to fill the void. The message is that new ideas, new business models, new technologies, new production methods, and new sales techniques, can render almost any product, service, or business practice either obsolete - or profitable – very quickly. Constant vigilance is the key factor here.

Example 5. Mohammad Yunus was a college professor in Bangladesh who spent years trying to determine what poor people needed to help lift them out of poverty. His research showed that most poor folks know exactly what they need: a tool, a raw material, or some other basic requirement that can help them to help themselves. Unfortunately, most of the world's poorest people do not have the few dollars necessary to buy what they need so Yunus conceived of an idea to offer small 'micro-credit' loans. Defying the naysayers, he then developed a business model around the idea of bringing his loaning institution (the *Grameen Bank*) to his customers rather than forcing his customers to come to his bank. Today, the Grameen Bank pays out over $445-million each year to over 3 million needy people (usually in sums of $25 per customer). To date, these loans have achieved a 98.9% customer repayment rate – higher than any other bank in the world. As a result, in 2006, Mohammad Yunus won the Nobel Peace Prize; proving that a good business idea combined with a well thought out customer-oriented business model really pays off. *Kiva.com* is a similar example of this concept.

There are No Guarantees in Business

Remember, although research can help choose a good business model, research alone will not guarantee success. Equally as frustrating, no matter how promising, convenient, or inexpensive a new product or service may be, it may require both the patience of Job and a Herculean effort before paying customers respond to its advantages. Remaining ever vigilant is an imperative because one tiny, unforeseen 'twist' or product modification devised by you or a competitor may be all that's needed to make a current product idea wildly successful (see Chapter 25) - or instantly out of date. The message for entrepreneurs (as always) is to remain informed, flexible, and attuned to changing environments, changing product perceptions, and changing customer wants and needs.

Advice from the Pros

- Don't be a fool when it comes to persistence. Practice does not make perfect if you're practicing the wrong tactic. If what you're doing is not working, stop doing it and try something else.
- Know what and why you're changing before taking a different course.
- Although change is constant and necessary, make sure you understand the reasons behind it. Be certain that you've chosen the right time to change and have made enough of a commitment before doing so. Some ideas need a long time (and a great deal of patience and support) before they payoff.
- Work smart, not just hard. Re-working a business plan is not a sign of weakness if the current plan is proving futile.
- Don't try to play it safe by adopting several types of business models when running a business. Businesses that try to be all things to all people have a tendency to be confused, unfocused, and sloppy and end up satisfying no one.
- Don't be afraid to do exactly the opposite of what everyone else is doing. Customers are usually attracted to the differences a business offers rather than the similarities it shares with others. If cost-cutting is the norm in your area, think about breaking into the luxury end of the market. If a market is saturated with providers that sell similar products, then embellish what you offer with unbeatable service and delivery.
- Never assume that a successful business strategy will last forever. It won't.

Chapter 10
The 13 Main Reasons Why New Businesses Fail (and How to Prevent Them)

Chance fights ever on the side of the prudent..

Euripides

Entrepreneurship statistics often vary. Some estimates claim that up to 95% of new businesses fail within five years. Others say the number is around 65%. Either way, these are staggering figures when one takes into account that most new businesses fail for more or less the same reasons. Most of these reasons are presented below ranked in the order of the threat they pose according to the entrepreneurs surveyed for this book. Note, however, that those placed at the end of the list are not the least dangerous. 'Any one of them, combined with another or on its own, carries enough firepower to bring down a business,' says the owner and operator of *ASAP UK Ltd*. (a sign making and print shop in Southampton, England). It therefore makes sense to do as much as possible to avoid all of them.

Reason 1: Inadequate Planning

As simple as it sounds, lack of forethought and planning is the main culprit behind virtually every business failure. Thankfully, 75% of most business ideas fail on paper (i.e.: the planning stage), which is exactly where a business idea should fail. The only other option is to collapse on the street, perhaps under a pile of debt. Inadequate planning includes (but is not limited to), not fully understanding a product or service before selling it, not conducting detailed market or labor research, not compiling a realistic customer profile, not researching the competition, not selecting a proper business model, not determining all costs beforehand, or, in general, not doing enough preliminary work to determine if all the numbers add up. In short, running a business without a well-researched plan is like hacking through a jungle without a map. Put another way, if you don't have the time or inclination to plan, write down, investigate, and analyze what it is you want to do in regards to starting a business, then you probably don't have what it takes to succeed. Period. For further information on this critical subject, see Chapter 11.

Reason 2: Underestimating the Commitment it Takes to Succeed

In a world where almost everything is wanted on a silver platter the moment it's demanded, it's easy to forget that quality and strength take time to acquire. For example, it can take up to six months or longer to put together a business plan and as much as five to seven years (or longer) to establish a solid customer base. I'll use the story of the photocopier to illustrate this point. The idea of photocopying text instead of making copies by hand was the brainchild of Chester Carlson, a visionary who developed his first successful machine-made 'dry writing' image in 1939. Over the years Carlson offered his idea to over 20 companies including *GE*, *IBM*, and *Kodak*, yet each turned the invention down by explaining that photocopiers weren't needed because carbon paper was good enough. Much to his credit, Carlson persisted - eventually winning over the president of a small photographic paper company (Joe Wilson) who agreed to fund the development of what he saw as a promising new idea. Through thick and thin Mr. Wilson kept his word, faithfully supporting Carlson even when he could not afford to do so. At one point, during the winter of 1959-1960, a team of engineers worked 24 hours a day, seven days a week to meet a deadline. With Wilson and Carlson unable to pay the heating bills, the men huddled around the prototype as they worked, wearing coats and boots (and with a blanket draped over themselves and the machine) in order to keep warm. The result was the launch of *Xerox*, a company that reached $1-billion in sales faster than any other business in history up to then. It took over 20 years and brought several people to the brink of financial ruin, but persistence, dedication - and a good idea - paid off. For a reminder of the human and commercial aspects of these concepts, re-read Chapters 1-9. Chapters 11-20 provide additional supplementary information on the basics behind foundation building.

Reason 3: Cash Flow Problems

If passion, commitment, and planning are more important than money (as stated in Chapter 1), then why do cash flow problems appear at the top of a 'reasons why business fail' list? Think of it this way: money isn't needed to conceive a baby, but once a baby is born it needs to be fed – and the bigger a baby gets the more food it needs. So it is with a business. Too many entrepreneurs confuse the word *cash* with the word *profit*, thinking that they're one and the same. 'Profit' is a word for accountants. 'Cash' is what a business feeds on in order to survive. Employees, banks, and many suppliers must be paid in cash – not profit percentages. If customers take 30 days, 60 days, 90 days, or longer to make their payments, a business could be in trouble if it needs those payments to cover expenses. One of the most difficult things to explain to wannabe entrepreneurs is that *profitable* businesses all too often end up going bust due to cash problems because much of the world runs on credit. Even a business with $20-million in sales can face bankruptcy if it can't meet its payment obligations while waiting for customers to pay for what they purchased. Suggestions for improving cash flow include:

- *Don't go on a spending spree during the first year or two of operations*. No matter how successful your business appears, or how enthusiastic you are to make improvements, the first year of operations is not the best time to *spend* money. It's the time for *collecting* money. Avoid the temptation to celebrate or spend a lot of money during the first year or two of operations.
- *Avoid bad customers*. Before accepting credit from anyone, ask for and *check* credit references. Some banks will do this for you. Or try an internet search. In the UK, the *Better Payment Practice Group* (BPPG) names and shames 10,000 delinquent payment companies on its website. The worst offender on its 1999 list was *WorldCom* – a company that took 256 days on average to pay its suppliers and went bankrupt three years later (Simms, 2006). In the USA, contact *Dun & Bradstreet* for a quote. Note: Credit-checking services are available in most countries so take advantage of them!
- *Bill promptly*. When possible, always ask for cash up front when selling a product or service. Otherwise, set up a regular billing system, clearly state your terms, or negotiate with customers for payment in advance.
- *Create an incentive for receiving prompt payments*. Offering customers a discount of 1% or 2% if they pay within ten days often provides a big incentive for them to do so.
- *Reduce inventory*. Determine how much inventory your business really needs and cut back on stock. Reducing the amount of money you spend on inventory frees up capital.
- *Consolidate your loans*. If you've borrowed money from several different sources, consider taking out one big loan that covers them all. This may involve stretching out your payments for another year or two (thereby costing more in the long run), but if you need to lower your *monthly* expenditures it may be a good option.
- *Learn to barter*. Sometimes products or services can be exchanged without money changing hands. For example, many years ago I convinced a gym owner to expand his hours of operation by bringing in students that needed to do internships. Local university rules forbid the paying of interns so any company that 'hired' one received free labor in return for providing the student with some work experience. Ten years later, I expanded this idea to rescue a multi-million dollar equestrian operation located in the Middle East. After advertising for, and finding, a number of

> volunteers who were qualified to give riding lessons I set-up a profitable program that allowed these volunteers (none of whom could afford their own horse) to ride a horse whenever they wanted in exchange for teaching my customers how to ride (this also reduced the amount of time and money that had to be spent exercising horses). As a result I never had to pay my instructors a wage, they brought in loads of new customers, and the business became profitable in six months.

For further information on cash flow problems and solutions, consult Chapters 12 and 13.

Reason 4: Poor Management

Entrepreneurship is the death of management. Paradoxically, it's also been said that management is the death of entrepreneurship. What these comments refer to is the belief that after setting up a business too many entrepreneurs stiffen into rigid managers that are guided by routines - a problem that probably arises due to the fact that most people don't know what good management is about. In short, management is not about being a boss. Good management is about serving others: providing for others, motivating people, getting work done through others, and streamlining a business toward making a sale -- and that's just the beginning. Indeed, some practitioners believe that managers in denial of what's going on in their business is the real number one reason why most businesses fail. Additional managerial problems include an inability to delegate, inflexibility, micro-managing the work of others, or abdicating important work responsibilities.

Fortunately, it doesn't take genius to be a good manager. For the most part, competent management involves being curious and open-minded, having a good attitude, adopting adequate organization skills, offering quality training to employees, listening to others, being flexible to new ideas (i.e.: remaining entrepreneurial), harboring a hatred of the status quo, and instilling a business with a can-do attitude that may involve breaking the rules (but not the law). For further suggestions on the basics of management consult Chapter 21.

Reason 5: Not Understanding the Importance of Customers

Setting up a new business involves so much work that it's easy to forget about paying customers. Interior design, bookkeeping, product displays and other non-revenue producing activities - although important - should not be the priority of a business. Successful business operations are reliant upon receiving money from satisfied customers on a regular basis. Yet no matter how simple this concept sounds, it's surprising how many businesses lose sight of it. For example, years ago a wealthy doctor wanted to purchase industrial-size washing machines and dryers for the hospitals he owned. He approached me for help, but I didn't have any free time so I referred him to my father, a retired executive who is always looking for something to do. 'Over the past month I've contacted every washing machine manufacturer in the country,' he told me later, 'but no one seems able to answer even my most basic questions, my messages aren't being returned, and I'm tired of begging.'

What is it that causes people to lose sight of the fact that to make money and survive a business must focus on its customers? For answers to this question please turn to Chapters 20, 21, and 22.

Reason 6: Staffing Problems

People problems usually begin by: (1) not fully investigating the background of job applicants, (2) failing to fully train employees, (3) hiring friends and relatives (in a long-term capacity), and (4) employing people who are clones of the entrepreneur rather than those whose skills will counterbalance the entrepreneur's weaknesses.

No matter what the business, finding honest workers who share the owner's passion and commitment can be an arduous and time-consuming process. To be sure, almost every small business has, at one time or another, been forced to hire the first breathing job applicant that appeared in the doorway. That being said, it *is* possible to entice capable people into joining an organization because it, or the person behind it, impresses them. Don't be the type of boss whose behavior resulted in a prospective employee leaving his or her last job ('Though we are supposedly living in a democracy, most of us spend our lives working in private tyrannies,' says business writer John Emerson). As an entrepreneur, you may not be able to pay your employees more than your competitors, but you can certainly give them more. Employees should be trained properly and be made to feel useful because people work harder and show more commitment when they feel that they belong to an organization and are being listened to. In any business, employees come and go for any number of reasons, but it only makes sense to try and keep the good ones for as long as possible; high employee turnover is expensive, time consuming, and draining.

For many small businesses the process of finding good employees begins by placing a classified ad in a newspaper or magazine, by sticking a 'help wanted' sign in a window, or, by pinning a notice on the bulletin board of a community center, supermarket, or similar venue. This obviously doesn't allow for any screening to take place, but it can result in a larger number of potential candidates from which to choose. Employment agencies are another option (although their services may be expensive). Colleges, universities, and high schools provide an additional hunting ground particularly when it comes to part-time help. Don't forget to ask friends and business contacts if they know of anyone looking for work - just be firm in insisting that the people you're seeking must be qualified. Remember to keep a file of all candidates. You may need it in the future.

Before a candidate has been selected, check his or her background. Any claims made on a resume should also be investigated. This will save a lot of time, money, and hassle. Plan the interview process in advance, prepare a list of questions, and try to determine how 'hungry' the candidate is to work. I, and others, have found many excellent employees by focusing on their desire to work rather than their education and experience. People who are hungry for work are usually committed and want to do well. Again, the more time and effort spent on finding and screening job applicants, the less chance there will be of suffering through the nightmare of staffing problems. For more information on this subject turn to Chapters 20, 21, 22, and 31.

Reason 7: Inflexibility

Small businesses should not act like rigid, inflexible corporations. From the business plan to the marketing campaign to the importance of finalizing a sale, if something isn't right it should be changed quickly. Change can happen in one of two ways: it can either be done by you or it can be used to run over you. Keep in mind the definition of insanity (*the constant repetition of a behavior with the expectation of a different result*) and the perils of inflexibility become more obvious. Persistence is an admirable trait, but when it turns into stubbornness it can lead to trouble. Examples of inflexibility in a business include not deferring to customer demands, feeling invincible against competitors, and refusing to acknowledge changes in technology, markets, or work practices. Simply put, the role of a business is to sell what customers want to buy, not what the business wants to sell (and selling what customers want includes *how, when,* and *where* the customer wants the product sold). For example, many years ago I worked for a fitness club that decided to adopt a direct debit billing format. At the time direct debit was a new concept and many customers were reluctant to authorize an automatic monthly deduction of fees from their bank accounts. One day a man came in to buy a year's membership for his son. As I began to explain our direct debit policy, he pulled out a wad of cash. 'I'd like to pay with this if you don't mind,' he said. At that moment the club's manager walked by. 'What are you doing?' he bellowed, 'I've said 100 times that customer payments can only be made by direct debit!' Of course the customer left. Needless to say, the business collapsed soon afterwards. Years later I found myself in England joining a local gym. 'Would you like me to pay by cash, cheque, or credit card?' I asked. 'Yes, yes, or yes,' the owner cheerfully replied, 'whatever's convenient for you.' Now that's good business! For further insight on the importance of being flexible see Chapters 3, 5, 6, 9, 21, and 22.

Reason 8: Poor Marketing and/or an Inability to Sell

Contrary to popular belief, if you build a better mousetrap the world will *not* beat a path to your door. Equally as true is that good products and services do *not* sell themselves. Simply put, the success of every enterprise hinges on its ability to sell – and an ability to sell begins by understanding the basics of marketing, promotion, and human psychology. Additional problems associated with poor marketing and selling include relying too much on one particular customer, not focusing on a particular market segment, not undergoing sales training, and ignoring the competition (every business is *always* competing against something – even if it's just a customer's time). To remain solvent, a business must be able to successfully:

- announce to potential customers what is being sold,
- generate continuous interest and excitement in what is being sold, and,
- finalize a sale before a competitor takes it away.

Don't sell yourself short. For more information on this crucial subject see Chapters 18, 23, 24, 25, 27, 28, and 29.

Reason 9: Not Enough Capital.

Too many new business owners underestimate how much money they need. Not to get their business off the ground, but to keep it running through the first year or so of operations when money is tight. That's not to say that buckets of money are needed to succeed as an entrepreneur. For example, one entrepreneur in the USA made a tidy profit writing and selling a small booklet the contained recipes for 100 different meals made with ground beef. Another American entrepreneur sold fishing lures by doing little more than advertising in a sports journal. For one dollar and the cost of postage, readers were asked to send in an unlucky lure for which they would receive a different lure in reply. The scheme was nothing more than a used product swap yet no one complained and it produced a small profit (Halloran, 1992).

Unfortunately, most businesses need more than a few recipes or a fishing lure to get started. You may recall that the first chapter of this book claims that passion and commitment are more important than money when it comes to starting a business. According to many practitioners this is true, however, it's also true that most businesses don't make any money during their first year or two of operations. Funding is therefore needed to cover taxes, wages, raw materials and other costs, as well as the personal requirements of the owner (e.g.: food, medical insurance, a mortgage (or rent), car expenses, and so on). With this in mind, many successful entrepreneurs suggest pursuing several sources of finance rather than just one (which could dry up). If possible, they also suggest trying to collect an additional three to six months worth of extra working capital to put aside for emergencies. 'If your business idea needs a lot of money to get started then you're probably thinking too big,' says one millionaire, 'consider starting out smaller.' For further details see Chapters 12 and 13.

Reason 10: Pricing Problems

The price of a product is usually the most significant factor affecting a customer's decision as to whether or not the product will be bought. Equally as true is that a price contains the profit a business hopes to make. Entrepreneurs want to make as much money as they can while customers want to save as much money as possible. Unfortunately, it's the entrepreneur that usually loses this struggle. In a bid to attract customers, the most common pricing mistake made by new businesses (especially service providers) is to undercharge or give away labor or materials to attract customers. Yet once a product has been dispensed for free the business no longer has any leverage to collect payment. Another factor that must be considered when establishing a good price is the amount of time, work, and effort invested in the product or service. Setting a price involves much more than covering expenses or charging what everyone else is charging. For a broad explanation of the factors involved and how they can be optimized to suit the needs of a business, see Chapter 27.

Reason 11: Lack of a Competitive Edge

Many small businesses starts out as a cutout copy of another business, thereby providing no incentive for customers to choose it over the available competition. Every enterprise should therefore have at least one aspect that distinguishes it from its competitors. *Domino's Pizza*, for example, made its name by focusing on fast deliveries - something few other pizza parlors provided at the time. *Dell Computer* stays at, or near, the top of its market by manufacturing a personalized product faster than any other computer company in the market. How do businesses like these become unique – and how can yours? The 'Marketing Mix' elements discussed in Chapter 24 provide a good starting point. Garvin's 'Eight Quality Dimensions' in Chapter 26, combined with a thorough understanding of the wants and needs of customers, can also be of help. For more information on how to obtain a competitive edge, re-examine Chapters 3, 23, 25, 27, and 31.

Reason 12: Going it Alone

Along with not doing enough research and not establishing a close relationship with customers (as well as suppliers), going it alone means relying totally on your own, infallible, all-knowing and superior intellect. Put another way, so many qualified people, books, education centers, and government programs are available to help entrepreneurs that it simply doesn't make sense to venture into the marketplace alone. If help is needed it should be asked for. The economic strength of a nation is often reflected in the ease or difficulty with which a citizen can start a business. That's why it can take thousands of dollars, hundreds of pages of forms, and more than a year of effort to register a business in many developing countries. Developed countries, on the other hand, make the process easier. In the UK, check the phonebook or the Internet to find the location of the nearest *Training and Enterprise Council* or small business information center. In France, contact the *Pret a la Creation d'Enterprise* (*PCE*). In Mexico, the *First Contact Entrepreneurial Advisory Centre* and *CONTACTO pyME* are available to help entrepreneurs. Belgium has a program that actually gives money to entrepreneurs to help start their own business (contact the *Foundation for Research and Education in Entrepreneurship*, or *FREE*, for details). Likewise, Europeans can seek out nearby *SOLVIT Centers*, which are located across the continent. In the Netherlands, entrepreneurs can make inquiries through *TAOM*, a program that offers technical assistance. In the USA, the *Small Business Administration* (SBA) provides help to local businesses. The *Service Corps of Retired Executives* (SCORE), an offshoot of this program, is yet another assistance venue. *Small Business Development Centers* (SBDC), many on the campuses of colleges and universities, provide an additional alternative. Business schools, universities, city halls, community centers, trade associations, and books make for further sources of information – and don't forget the local *Chamber of Commerce*. The seminars, guidance, training, and pamphlets these organizations offer are bound to suit the needs of almost any entrepreneur.

Reason 13: Growing Too Fast

As odd as it may sound, having too many customers can kill a business. Think of it this way: if a business is swamped with increasing customer orders it has to increase its output, which means that it has to purchase more raw materials, buy more equipment, and possibly hire more personnel. Meanwhile the business is stuck producing the same output until it has the full ability to do more. In other words, expenses soar while revenues stay the same. This lack of incoming cash and increasing debt can result in big problems – and not just financial ones. When a business can't deliver what it promises word of mouth spreads and customers quickly go elsewhere. Research has shown that happy customers tell three to four people about their experience while unhappy customers relay their disgruntlement to as many as 20 people. It is therefore prudent for business operators to have an adequate plan that takes into account what will be done to increase output or expand operations *before* the business starts growing. For example, one restaurateur discovered that the only way he could placate his growing number of customers - most of whom he had to turn away - was to offer free wine and appetizers while they stood in line. His next step was to initiate a table-booking system that didn't offend his regular customers. In the meantime, he made plans to borrow money, expand his premises, and hire and train new employees. There is simply no other way to put it: growing businesses usually have to take on some form of structured debt in order to cover their expenses. See Chapter 12 for ideas on how outside funding can be obtained.

Advice from the Pros

- The *13 Reasons Why Business Fail* should be addressed in every business plan. Don't ignore them.
- It's not necessary to know everything there is to know about a business before starting one, however, it is necessary to learn as much as possible. Don't think that the law of business failure averages does not apply to you. Familiarize yourself with the basics of business, as well as the all-too-common mistakes others make, *before* taking the leap into a new business venture.
- In addition to the *13 Reasons Why Businesses Fail*, a few other factors can just as easily wipe out an unprepared beginner (most of which fall under the category of poor management or lack of planning). Be familiar with them. They include:

- Procrastination with decision making and/or the initiation of changes,
- Failing to respond to competitors,
- Not understanding the competition and why it either succeeds or fails
- Not adapting to a changing market
- Failing to prepare for the inevitability of traditionally volatile costs (fuel, raw materials, insurance, labor…)
- Poor internal business controls (i.e.: lousy customer service, poor accounting, bad record-keeping, theft, fraud, etc…)
- Focusing too much on cost-cutting (i.e.: not controlling controllable expenses)

PART II
LAYING THE FOUNDATION

Chapter 11
Writing a Business Plan

Chance favors the prepared mind.'

Louis Pasteur

No matter how it's looked at, writing accurately, briefly, and with clarity is an essential business skill. This is because writing, particularly in a business context, fulfils four important roles:

1. *It conveys information* by communicating intentions, objectives, opinions, and ideas as well as on-going developments and plans for the future. Written material - in any format - can also be conveniently filed away and stored as a form of definitive recording.
2. *It clarifies information* by helping to eliminate misunderstood ideas. Writing forces the person who is writing to think about and clarify the idea/subject that he or she is writing about. Topics tend to be confirmed and strengthened when someone takes the time to write them down.
3. *It reflects seriousness on the part of the writer*. Committing a project to writing shows intent, devotion, and dedication.
4. *It holds people accountable*. Poor communication is often blamed for problems as diverse as: a) credibility issues; b) incompetence; and, c) differences in beliefs. These situations can be avoided if the use of clear, concise information is understood beforehand. Writing also provides a guide that can be used to measure and compare thoughts with others as well as future results.

Why Write A Business Plan?

When one takes into consideration the fact that the number one reason why new businesses fail is a lack of planning, the importance of writing a business plan becomes more apparent. Don't try to avoid the time and hassle of sitting down and putting together a comprehensive plan. A well-researched business plan makes it possible to:

- define and refine a business concept,
- keep a focus on objectives,
- spot and rectify weaknesses before they become major problems,
- recruit personnel by defining what is needed and what skills employees must have,
- create a map that helps guide a business through unfriendly environments,
- convince investors that the business idea is sound,
- convince money lenders of the entrepreneur's ability to pay back a loan,
- convince potential customers that the business will serve them reliably, and,
- obtain necessary permits and licenses.

The Essentials of Good Planning

The main purpose of a business plan is to compare the (potential) sales of a product against its expenses. Put another way, a business plan is not a forum for an entrepreneur to brag about how wonderful or creative his or her idea is. What potential customers say about the product and what the market reveals are far more important. As discussed in Chapter 5, the point of business research is to: (1) determine who is going to buy a product, (2) find out how many are going to buy it, and, (3) discover if the market is strong enough to sustain future sales. A business that plans on selling ice cream, for example, needs to know how much it costs to produce, sell, and store ice cream. This includes the cost of raw materials, equipment expenses, the cost of licenses, utility costs, and so on.

Further analysis will reveal how many scoops of ice cream must be sold per week to cover these expenses (see *Break-Even Point*, Chapter 13). If the numbers show that the amount of money collected from projected sales is greater than the costs of production, it's likely that a profit can be made.

A Sample Business Plan Layout

The essentials of a good business plan include (1) an executive summary, (2) a clear description of the product and the people behind it, (3) research findings, (4) marketing strategies, and, (5) costs, wages, and financial projections. In other words, good business plans do not rely on expensive bindings, novel-length discourses, or fancy graphics; the emphasis is on solid information and reliable explanations as to how the information was collected. The following outline is designed to help write a solid business plan. A brief description accompanies each section. Note that nine sections are not mandatory when it comes to writing a business plan, however, the criteria in each of the nine sections does need to be addressed. Ideally, every section of a business plan should be easy-to-read and be arranged to suit the eye of the intended reader.

Section 1: *A Cover Page and Table of Contents*. First impressions are important. Every business plan needs an eye-catching, professional-looking cover page followed by an easy-to-use table of contents.

Section 2: *An Executive Summary*. A good summary briefly uses one or two pages to describe the product (or service), its competitive advantages, who the product will serve, the size of the market, the goals and objectives of the entrepreneur, and a few profitability estimates. Keep everything short. The objective here is to whet the reader's appetite not to explain details.

Section 3: *A Full Description of the Product***/Service**. This includes how it was conceived, why it's needed, its function and design, why it's different, and comparisons with similar products/services. Focus on competitive advantages and disadvantages and provide a brief overview of the intended customer base. Profitability estimates (along with how the estimates were obtained) should also be included.

Section 4: *A Description of the Business*. Goals and objectives should be mentioned as well as the intended location of the business (and why). An explanation of the business's legal structure and organizational set-up is mandatory. Comparisons with similar businesses are also useful.

Section 5: *Market Potential*. Here's where market research enters the picture. This section needs to have a full assessment of the market (itemized demographics, characteristics, and trends), a complete description of product demand (i.e.: where perspective customers are located - and their numbers), the future outlook of the market, and a thorough analysis of the competition (who the competitors are, where they are, their strengths and weaknesses, and a forecast of their future intentions). Be certain that the data used is accurate and reliable (in other words, don't exaggerate). All numbers and forecasts will need explanations clearly showing how data was obtained if a loan from a bank or other source is needed.

Section 6: *Marketing Strategy*. This is a plan showing how the business will announce its arrival, how its product will be advertised and promoted, the costs involved, market entry barriers (and solutions), the intended price of the product, and distribution plans (and costs). A brief description of selling procedures and how sales (or the sales team) will be organized is equally as important.

Section 7: *Financial Overview*. If outside funding is being sought this will be the section most studied by investors and money-lenders. Indeed, many experts consider the financial section of a business plan to be the most important. Financial forecasts for the first year, second year, third year, and fifth year (with balance sheets) are mandatory, along with a brief description explaining how the numbers were obtained. Income statements (based on research estimates) as well as outgoing cash-flow projections (itemized costs) need to be clear and concise. A breakeven analysis is important as is the intended sources of required funds and how that funding will be applied. Do not place financial information in paragraph form. Numbers should be displayed in easy-to-read graphs or charts (see Figures 11-1 to 11-5, pp. 71-72).

Section 8: *The People Behind the Plan*. This section involves a description of the main people who will be implementing the plan including a run-down of each person's skills, experiences, education, and background. Also worth describing are the number of employees needed, a run-through of wage requirements (including those of the entrepreneur), job descriptions, a brief synopsis of job responsibilities, and the business's employee training procedures.

Section 9: *An Exit Strategy*. Because too many entrepreneurs don't know when to call it quits, an exit strategy is an important consideration. For example, if the business proves to be successful it may be necessary to hire an experienced manager to handle growth. At what point will this be done? On the other hand, if the business is losing money, a course of action should be established in advance as to when and how to end operations. How much money will be lost before failure is recognized? Will the business be sold in its entirety – or will it be broken into pieces and sold? An exit strategy can provide possible answers to these questions long before the entrepreneur descends deeper into debt.

The Most Common Mistakes Made When Writing a Business Plan

- *Verbosity*. If asked to describe themselves, few people begin by talking about their birth, their adolescence, their teen years, their first love, their pets, and all their experiences and encounters up to the present day. Curiously, however, many people take this route when writing a business plan. The message? Don't overdo it. Keep each section of the business plan as short and concise as possible.
- *Lack of Scope* includes not having sufficient data to complete nine sections of a business plan as well as 'the 13 Main Reasons Why Businesses Fail'.
- *Overconfidence or Lack of Insight*. 'Eager beaver' entrepreneurs who rely on hope, charm, or enthusiasm rather than legitimate research impress no one. Every section of a business plan should stick to solid research and facts. All it takes is one embellished 'fact' or uninformed opinion to reveal itself and the entire business plan will be seen as a complete fabrication.

Additional Suggestions for Writing a Solid Business Plan

Keep the following suggestions in mind before, during, and after writing a business plan:

1. *Stay on track* (consider the specific reason why your plan is being written)

- What is the plan's intention? What is it supposed to accomplish? Is its purpose to acquire funding, to gain licensing permission, or is there another focus?
- Can the aim be summarized in one sentence and be used as the main point? It should.

2. Convey the message of the plan in a way that its recipient(s) will understand

- Exactly who will be reading the document?
- What are their likes and dislikes? (if this is not known, ask the recipients)
- Is the correct tone or attitude being used?
- How much does the recipient already know about the topic?
- Will he or she understand the terms and language used?

3. Structure the plan carefully (organize and clarify)

- Does the document proceed in a logical and organized way?
- Does every sentence and paragraph justify itself? (i.e.: is it organized around a central theme?)
- Have enough graphs, details and/or explanations been included to support the main point?
- Is everything that has been written down necessary? (if not, remove it)
- Is it clear to the reader what he or she needs to know or do afterwards?

4. *Take the time to develop, revise, and edit the 'completed' document before submitting it*.

- Is the document's layout effective? (are its titles, spacing and text well-balanced?)
- Is the documents information and style easily accessible?
- Has someone proof-read the document? (it should be proof-read by several people)
- Do the beginning and ending statements have a resounding impact?

Business Plan Advice from the Pros

- Don't try to impress the intended recipient of a business plan (usually a financier) with fancy jargon or overly-technical wording.
- When crunching your research numbers, don't forget to add personal wage requirements into the overall expenses – even if you plan on living off your savings (or your parents) for a while. Wage requirements include rent (or mortgage payments), car payments, insurance needs, bills, energy costs, pocket money, and food and living expenses.
- Keep your business plan short and to the point. Avoid long sentences and long paragraphs.
- Don't be ambiguous. Ambiguity does not reduce opposition, hide insecurity, cut down on questions or allow you to be all things to all people. It just makes you look bad.
- Have all facts and figures reviewed by a professional before showing them to others.
- For the financial section of the business plan, develop a worst case scenario, an expected scenario, and a better-than-expected scenario for the first, third, and fifth year of operations. For example, if you think the business will capture 10% of a particular market, also make forecasts for 5% and 15% (see page 71, FIGURE 11-2 and 11-3).
- Check with a local bank to see if it offers a business plan booklet. Business plans that are tailored around the preferences of a lender improve the chances of obtaining a loan from that lender.
- Use graphs rather than an avalanche of words to explain complicated numerical information.
- If help is needed in putting together the financial section of a plan, consider hire an accountant. It may be money well spent.

Examples of numerical data

The following information is based on a fictitious business. The basic idea is to create an energy-evaluation and waste-energy elimination service that saves money (e.g.: a service that travels to a customer's home, conducts an energy evaluation, and provides detailed solutions intended to lower energy costs). The appeal of the service is that its cost is usually paid back within two to four months as a result of the energy savings obtained. Note that the information on this page reveals the size and scope of the target market only.

Figure 11-1 (Household Income and Number of Households of Region)

This chart, based on public records, shows the local income levels where the proposed business is envisioned. The percentage of current households correlating to each income bracket is included.

Household Income (in local currency)	%. of households	No. of households
< 10,000	65.7%	179,952
10,000 – 14,000	15.5%	42,555
14,001 – 18,000	4.7%	12,873
18,001 – 25,000	8.6%	23,555
> 25,001	5.5%	15,065
	Total 100%	274,000

Figure 11-2 (Scenarios for estimated size of household market)

Following is an estimation of the potential number of customers that can be expected within the household target market. Note that four possible scenarios are displayed (very high, high, medium, and low). Keep in mind that the size of a *potential market* does not reflect actual sales. The purpose of this data is to help prove that a viable household market exists – nothing more, nothing less. Actual sales, which will have to be independently researched and estimated, may only amount to 1% of the potential market.

Total number of regional households	% of Target Market			
274,000	Very High	High	Medium	Low
	60%	50%	40%	30%
Total size of potential market	164,400	137,000	109,600	82,200

Figure 11-3 (Scenarios for estimated size of the business market)

Following is an estimation of the size of the potential market of targeted businesses (not households). Note that as in FIGURE 11-2 (above), this chart also uses four possible scenarios (very high, high, medium, and low) to reveal the number of *potential* customers in the overall market. Actual sales, which will have to be independently researched and estimated, may only amount to 1% or less of the potential market.

Total number of local businesses					
	65,000				
Target Market	75%	Very High	High	Medium	Low
		29,250	24,375	19,500	14,625

Figure 11-4 (Pricing)

Following are the estimated price figures (in local currency) that will be charged for the service. Multiplying the estimated price by the estimated number of services sold per week will lead to an estimated weekly net profit. Obviously, these prices will have to be reconsidered if they do not appeal to customers *and* if they do not meet expenses. Vat refers to Value Added Tax.

	Price	Price including tax (VAT)
Local Homeowner	227	250
Local Business	337	370

Figure 11-5 (Income and Expenditure Statement)

Following is an overview of the revenues and costs figures that will be needed. Keep in mind that a complete business plan will include a more detailed *itemized list* showing how these numbers were obtained. Using the target market data from the previous page, a business planner can estimate yearly growth at 5%, or 10% or any other expectation based on projected sales numbers, marketing strategy, and aggressiveness.

Revenue	Year 1	Year 2	Year 3	Year 4	Year 5
From service sales					
From merchandise sales					
Costs					
Salaries and wages					
Travel allowances					
Training					
Medical					
Staff recruitment					
Lease					
Advertising and marketing					
Utilities					
Communication costs					
Paper, printing, postage					
Maintenance					
Motor vehicle expenses					
Audit fees & outside services					
Bank charges					
Depreciation					
Total Costs					
Operating Income					
Interest on loans					
Net Income before Tax					
Net Income after Tax					
Net Income for the Year					

Chapter 12
Finding Finance

> *Finance is the art of passing currency from hand to hand until it finally disappears.'*
>
> Robert W. Sarnof

Some businesses require little more than pocket change to get started; others need hundreds of thousands of dollars or more. Whatever amount is needed, bear in mind that raising money is meant to be a difficult process. The obstacles and problems inherent in obtaining money, particularly from a lending institution, are designed to filter out those who are unfit to survive. Put another way, if an entrepreneur fails to raise enough cash to get his or her ideas off the ground then he or she has shown a lack of what it takes to run a business. There is nothing new in this. 'Starting a business is easy,' says the owner and operator of *Procontra P/L*, a building maintenance company in Sydney, Australia, 'running it and funding it is hard.' Welcome to the world of commercial enterprise where after 50 doors have been slammed in your face the next one must still be approached with courtesy, optimism, and a smile.

Sources of Finance

The trick to finding capital, say some entrepreneurs, is getting it from the right sources and in the right sequence as a business grows and evolves. This means that when searching for funding every available avenue should be explored. Learn from every approach. For example, if a loan officer at a local bank turns down your request, politely ask why and use what is said to improve the next pitch. Often enough it's not what a money lender is told, but what the money lender wants to *hear* that is most important. Furthermore, when looking for lenders, try to find ones that specialize in the specific industry or field in which the proposed business is located. Investors are usually more receptive to industries and businesses they understand.

Following, in alphabetical order, are the most common examples of where money can be obtained. Ask around and investigate to determine how each option in your region or country can be maximized:

Banks

Winning over a bank is one of the highest hurdles a start-up business faces. Banks are necessary to small business operators for two reasons, (1) they're a safe place to store money, and, (2) they can be a source of finance and other services. Unfortunately, most banks enjoy loaning money to people and businesses that don't need it. This is because every bank wants to ensure that it gets its money back. Note also that:

- Banks are by nature cautious. Requests for money must therefore be backed up with firm facts and figures.
- Banks seek security in the form of proven cash revenues or collateral. If you don't have one or the other, you probably won't get a loan.
- If a bank is uncooperative or uninterested in your needs, move on to another one.
- Banks do not exist to help keep businesses afloat.
- People run banks. If you get to know these people your chances of success may increase.
- Banks hate surprises. Therefore, if you manage to secure a loan and can't make a payment on time, you should tell your bank in advance.
- Banks make mistakes. A study in the UK discovered that up to 20% of the statements banks

send out are inaccurate. It's therefore prudent to regularly check bank statements.

- Always approach a bank or banker having done a bit of homework. It shows that you're on top of things, which demonstrates integrity and professionalism.
- Most banks are often open to negotiation when it comes to interest rates. Don't be afraid to haggle (Becket, 2003).

Corporate Venturing

Some companies loan money to entrepreneurs in the hopes of establishing a working relationship with them. This is called corporate venturing. Needless to say, the skill or product of the entrepreneur must be of benefit to the company being asked and be backed by a solid business plan. The company to which the idea is being pitched may also seek some type of equity share (ownership) agreement. Just make sure the idea or product being pushed is first protected by a patent or copyright (see Chapter 16).

Crowdfunding

The practice of obtaining funds by publically asking for small donations has been practiced for centuries. The cost of the Statue of Liberty, for example, was crowd-funded by a newspaper campaign. Paying for upcoming military campaigns by selling war bonds and writers collecting cash from future buyers to fund an as-yet-to-be-printed book provide two additional examples. Nowadays, more than two-dozen crowd-funding sites exist online. These include, *gofundme*, *kickstarter*, *indiegogo*, *crowdrise*, *patreon*, *crowdfunder*, and so on. Crowd-funding schemes usually involve either pre-selling a product (which is similar to a 'production contract' arrangement) or the selling of some sort of equity in the business that is producing the product. Either way, it can be extremely difficult to generate the attention of individuals and groups without an established network and/or skillful media involvement. An extraordinary public-relations or marketing campaign (and/or incredibly good timing) seem to be essential to crowdfunding success. Don't be seduced by stories that make crowdfunding look easy. Without first establishing a vibrant business network, crowdfunding can be as fickle and distant as winning the lottery.

Equipment Loans

Expensive equipment (i.e.: machinery, display cases, tools, etc…) can sometimes be purchased with an extended, low-interest loan from the company that produces or sells the equipment. In return, the entrepreneur may be asked to sell or advertise the company's products in his or her business (usually via professional signs and displays). Talk with suppliers and manufacturers for more information.

Family and Friends

Entrepreneurs that can prove (or have shown) that they're trustworthy and reliable - and have put together a viable business plan - may be able to find family members or friends who are willing to cough up the cash needed to start a business. Note, however, that these folks should not be rewarded with administrative titles in return for their help (which may create future problems). It's also usually not a good idea to ask friends and family to invest their life savings in a business (they may not get it back). Since asking friends and family for money is the most personal of routes to take this avenue must be planned with care and forethought.

Government Help

Local, state, and federal governments sometimes offer financial resources for small businesses if and when certain requirements are met. Examples include businesses that employ handicapped people (or minorities), businesses located in areas in need of economic assistance, businesses designed to help the environment, or businesses designed to reduce local problems. Contact a local economic development office for details. In the USA, a good source for such help is the book *Free Help from Uncle Sam to Start Your Own Business*, by William Alarid and Gustav Berle.

Grants

Grants provide money that does not have to be paid back. Universities, professional organizations, governments, and trade associations are typical grant sources (including the European Union - if the business is in Europe). The unemployed, pensioners, young entrepreneurs, artists, and other out-of-the-mainstream groups are usually the most eligible to receive a grant if they qualify – as are competent people who trying to set up a business in an underdeveloped area. For the most part grants do not involve large sums of money – only a few hundred or a few thousand dollars at most – but for a fledgling business a small amount of cash can go a long way toward reducing expenses. Apart from seed funding, grants can also be obtained for employee training, marketing costs, and insurance. Don't be ashamed to ask for help in the form of a grant. Just be prepared to fill out *lots* of forms before and after any money is received.

Issuing Shares

The issuing of shares is a finance option that is only available to businesses that are incorporated. The advantage of issuing shares is that the people that buy them don't have to be paid back. The disadvantage is that the people who buy shares are part owners of the business and as such they can hold the entrepreneur accountable for whatever he or she does (or doesn't do). Shares can be used in a variety of ways. For example, a cocktail bar in London, England recently issued shares to its employees as part of its payment package. In return, the operator of the bar says he has one of the most motivated workforces in the UK. For more information about issuing shares see Chapter 15.

Small Business Administration Loans

Loans available from the *Small Business Administration* (SBA) in the USA include:

1. *Direct SBA loans* (which have a low interest rate). The name comes from the fact that this type of loan is issued directly from the government. Unfortunately, because Direct SBA loans are intended for minorities and veterans they may be difficult to acquire if the person requesting them does not qualify.
2. *Guaranteed loans* are sometimes available to individuals who have been turned down by a bank. The scheme works by having the government guarantee a loan (via a participating bank) on behalf of the entrepreneur. More leeway is therefore usually given in paying the loan back.

For more information on small business administration loans, including tips on raising capital, finding grant resources, equity financing, and more, visit www.sba.gov or contact a local bank or nearby Small Business Development Center.

Soft Loans

Loans are declared 'soft' when they do not require security or collateral, their payback schedule is long, and their due dates are extendable. That being said, every penny that is borrowed must be paid back, with interest, just like a regular loan. Small Business Development Centers, local governments, business-oriented banks, corporations, business trusts, and other business-friendly associations are the best places to look for soft loans.

Trade Credit

Some suppliers do not require payment for the merchandise they sell for up to 30 days or longer – so that the purchaser has time to sell the merchandise before paying for it. If a small business has a solid customer base and it has little doubt that it can shift merchandise easily, this can be a creative way to lower inventory costs and begin trading with less money than was originally envisioned.

Venture Capitalists

A venture capitalist is a person or group that finances businesses. In return, he or she (as part owner) expects to share in the success of the business in which his or her investment has been made while expecting yearly growth rates of up to 40% or higher. Because most venture capitalists are successful business people in their own right, they're often adept at determining if a commercial idea is a good one. Note that many venture capitalists are not really interested in providing capital for small businesses. Instead, they look for high-flying enterprise ideas that have big profit expectations and will pay back their investment very quickly. Additionally, since most venture capitalists are only in it for the money (who isn't?) they may sell their shares to unknown buyers in a few years time.

Mixing Up the Options

If the sources mentioned above aren't enough on their own, consider mixing them up. Maybe a local bank won't lend $100,000 to start a business, but it may consider $25,000. Additional funds can then be obtained from family and friends, the selling off of personal assets, and so on. Still more cash can come from grants or through trade credits or equipment loans. Don't be afraid to be creative.

Advice from the Pros

- When in need of finance, shop around, be persistent, and never be afraid to ask for advice.
- Open up every available line of credit *before* going into business – even if it means taking on more credit cards. Few institutions will loan money to a cash-hungry business *after* it has been set up.
- Ensure that all equipment and machinery is bought at the best price and under the best conditions. Used equipment may be seem like a less expensive alternative to new equipment, but make certain what you buy has lots of life left in it. Entrepreneurs that buy cheap often buy twice. Remanufactured equipment, which comes with a guaranty, is a much safer bet. (Author note: if you're in need of office furniture, try not to buy brand new items. The cost of new business furniture is usually grossly over-inflated; remanufactured is a far better option, and no one will notice the difference).
- Get to know your banker *before* you need money from him or her (i.e.: while you're still solvent). Being desperately in need of cash is a bad time to introduce yourself to a money lender.
- Do your homework before seeking cash. You may need more than you thought. Many entrepreneurs claim that every time they turn around there seems to be another payment that has to be made (for licenses, fees, duties, permits, etc…). Prepare for this fact.
- Don't let your business die a death from a thousand cuts. Little expenses add up and they *can* break a business. Again, factor *everything* in.
- After you've deduced how much finance your business needs to get up and running, double the figure. (Some entrepreneurs suggest tripling it!)
- The world is littered with failed businesses whose owners were too proud or stubborn to ask for money when it was needed. Borrowing money is not a sign of weakness, but rather a normal, everyday business occurrence. Know that taking on debt is often a necessity if you're thinking of expanding.
- Consider selling equity (shares) in your business as a means of reducing debt. Although this means that the people with equity shares will own a part of your business, you don't have to pay them back (which can significantly reduce expenses).
- Lending institutions are more receptive to entrepreneurs that hold production contracts (i.e.: orders for a product). Getting potential customers to order a product before your business gets started may be difficult to do, but it can be done. Use such orders to impress a lender.

Chapter 13
A Brief Look at Bookkeeping, Numbers, Taxes, and Formulas

If a man's wit is wandering,
let him study mathematics.'

Francis Bacon

There's no getting around it. Mathematics is the international language of business and a basic business tool. Using numbers to read commercial indicators greatly increases the chance of success in the marketplace. Failure to do so only invites trouble. No matter how it's looked at, entrepreneurs have to be able to work with numbers.

The Importance of Numbers

Paying attention to the details of how money enters and exits a business helps to keep the enterprise solvent in five important ways:

- it measures success,
- it helps point out any weaknesses,
- it can indicate areas that need improvement,
- it can help to anticipate a crisis, and,
- it can show that profits during good months are enough to cover unprofitable slow months.

How does accurate financial information do all this? A common theme that runs through most businesses in distress is a lack of financial control and discipline. For example, consider the entrepreneur who ran a business in the USA that offered basic carpentry and repair services to homeowners. He thought he was doing well until a professional looked at his accounts and discovered that he was making only $4,000 per year (Norman, 1999). The lesson here is that too many small business owners shy away from accurate book-keeping (maintaining financial records), which makes them susceptible to:

- poor inventory control,
- theft,
- the need for the collection of owed money (which can be a huge problem),
- a lack of planning,
- poor decision making, and,
- inaccurate record keeping (which can result in audits and penalties).

Keeping accounts is not difficult, but it is time-consuming and tedious. Like most endeavors, however, once the gist of bookkeeping has been learned most people wonder what on earth they were afraid of. Books, software programs, and courses on how to read and prepare financial statements are available almost everywhere including the Internet, community education facilities, colleges, universities, and Small Business Development Centers. As one entrepreneur from the Netherlands stated, 'Everyone who wants to start a business should become familiar with relevant bookkeeping and financial terms. It just makes life easier. To do otherwise sets the stage for trouble.' This is quite a popular opinion amongst business owners. One third of the Australian business owners questioned for this book, for example, said that staying on top of accounts and tax obligations is their number one piece of advice for running a successful business.

Although this book is not meant to be an introduction to accounting and book-keeping, following, in alphabetical order, is a brief overview of some of the financial terms a business owner needs to be familiar with:

Audits

An audit is the checking of a company's financial records by an outside source (usually a professional accounting firm or a government agency). Audits conducted on small businesses are usually performed - at random - by government agencies (although depending on the area where a business is located they could be carried out on a regular basis). When the authorities suspect that a business is being dishonest in reporting its revenues, tax regulators will swoop down and conduct a more extensive search. This means that *every* transaction for up to seven years may be questioned. To avoid heavy fines (and/or jail time), never fake or embellish business accounts or try and boost personal income by not reporting revenues.

Balance Sheets

A balance sheet (see Figure 13-1) shows how well (or poorly) a business is doing by revealing *assets* (what the business *owns* including cash, inventory, equipment…) and *liabilities* (money the business *owes* such as: bills, loans, etc) on a single piece of paper in two columns. Not surprisingly, balance sheets are called 'balance sheets' because the storage and display of the numerical information they reveal (usually in two columns) should balance out.

Figure 13-1 Example of a Balance Sheet

Balance Sheet					
Assets			**Liabilities and Capital**		
Current Assets			Current Liabilities		
Cash	$12,300		Accounts payable	$8,944	
Accounts receivable	$22,400		Wages payable	11,500	
Inventory	$32,090		Total Current Liabilities		$20,450
Prepaid Insurance	$3,000		Long-Term Liabilities		
Total Current Assets		$69,790	Bank Loan Payable	17,500	
Fixed Assets			Total Long-Term Liabilities		$17,500
Equipment	100,200		Total Liabilities		$37,925
Less Accumulated Depreciation	(78,321)		Capital		
Assets		21,879	From parents		$53,700
		$91,669	Total Liabilities/Capital		$91,669

Basic Bookkeeping

Most small businesses record financial information in:

- a *cash book* (to record receipts and payments),
- a *petty cash book* (to keep track of everyday minor expenses such as paper, pens, stamps, envelopes, paperclips, taxi fares, coffee, etc…),
- a *customer account book* for credit sales (to record invoices),
- a *purchases book* (for purchases not covered by petty cash), and,
- a *wage book* (if the business employs several people)

Don't be confused by the word 'book'. The information contained in these 'books' can also be stored electronically. In fact, it's easier to keep track of accounts on a computer. Spreadsheet programs are available that debit and credit accounts automatically thereby avoiding hand-made errors or illegible entries. Either way, all information pertaining to purchases and sales (perhaps kept on two separate copies) should be collected and stored in a safe place. Information collected and stored for later use includes:

- receipts and invoices,
- check-book stubs (and cancelled checks),
- bank statements, and,
- tax information (as required by local and federal law).

Break-Even Point

A business is said to 'break even' when the amount of money collected from the sales of its products or services equals the amount of money spent on costs. Calculating the point at which this happens is a good way to determine how many products must be manufactured (and sold) or how many customers need to be serviced before a profit is made. To find a business's break-even point, determine the fixed costs of the business, its variable costs, and the sales price of the product being sold (per unit).

- *Fixed costs* are expenses that remain constant (or nearly so) no matter how much is produced. Examples of fixed costs include rent, monthly salaries, interest, and capital depreciation.
- *Variable costs* increase when production increases. Variable costs include: materials, labor (if paid on an hourly or per unit basis), utilities (electricity, gas, and water), transportation, sales commissions and so on.

Once this information has been gathered, the break-even point is calculated as follows:

$$\frac{\text{Total fixed expenses}}{\text{Selling price per unit - Variable costs per unit}} = \text{Break-even point (in number of units)}$$

For example, say a business manufactures flowerpots that sell for $5 a piece. If $2 in variable costs are required to make each flowerpot and total fixed costs amount to $750, then 250 flowerpots (amounting to $1,250 in sales) will have to be sold before a profit is made.

Cash Register Sales

Most cash registers can be programmed to separate merchandise into categories and subcategories. Every time a purchase is made, the cash register then records what was bought and when it was bought. This provides an accurate record as to how well different lines of merchandise are selling as well as when they are being purchased. Keeping track of this information allows an entrepreneur to (1) eliminate items that aren't selling, (2) stock up on items that do sell, and, (3) determine the profitability of merchandise.

Cost of Goods Sold

The 'cost of goods sold' (also known as 'cost of sales') shows how expensive it is to produce a product (for manufacturers) or sell merchandise (for retailers) by determining if too much money is being invested in inventory. The formula is as follows:

$$\frac{\text{all inventory purchase costs (amount x price paid)}}{\text{costs (amount X price) – what is left of the inventory}} = \text{Cost of Goods Sold}$$

Subtracting the cost of goods sold from the amount the business paid for them shows gross profit.

Inventory

The total number of products a business has for sale (both on the sales floor and in its stock room), or the number of raw materials on hand for manufacturing purposes, is called *inventory*. Imagine having to shut down a production line because a raw material has run out - or - operating a pub with no beer to sell during a football match. Carefully scheduling and storing materials and merchandise helps prevent such catastrophes from occurring. That being said, no business wants to waste money by storing items that are not needed straight away. Successful inventory management will produce a maximum amount of profit (by never running out of what is needed) with the least amount of investment (i.e.: not tying up the business's cash reserves by purchasing too much stock). With a little practice, most people can become good at this – particularly when accurate records are kept and reliable suppliers and wholesalers have been found.

Inventories should always be checked and counted on a regular basis. Unaccounted for losses are called *shrinkage* (e.g.: items that have disappeared due to theft, spoilage, accidents, poor record keeping, or damage). Through careful observation and control, preventative steps must be taken to avoid shrinkage to prevent it from becoming a reoccurring problem (see the last entry in the *Advice from the Pros* section, Chapter 30, page 166).

Ledger Books

Once a business starts expanding it may need a set of ledgers. A ledger is a detailed account book.

- *Sales ledgers* keep track of individual customer accounts (thereby showing who the most valued customers are).
- A *purchases ledger* stores information about suppliers (which can determine who a business purchases from most and therefore who - amongst its suppliers - is most likely to give credit or discounts).
- A *general ledger* includes all sales and purchases data as well as income and expenditure totals.

Ledgers operate under a double-entry system. This means that every transaction is recorded twice: once as a debit and once as a credit, depending on who is receiving money and who is spending it. For example, a sale where payment has not yet been received is recorded in a *customer account ledger* as a debit - and a credit in the business's *general ledger*. It would take a full-length discourse to explain the intricacies of ledger accounting (which, again, is not the purpose of this book) so if keeping a set of ledgers is necessary or desired seek additional help from a specialized source for more information.

Monthly Net Profit

To determine how much money a business is pulling in per month, add up all total sales for one month and subtract labor expenses, material and equipment costs, taxes, and expenditures (including inventory not yet sold). What's left is the monthly net profit.

Profits

A profit is the amount of money a business makes after all expenses have been paid. Generally speaking, there are three types of business profits:

- *Gross Profit* – is the total of all sales before expenses are subtracted.
- *Operating Profit* – shows how much money has been made after deducting expenses that are directly related to producing a product (i.e.: everything except interest, depreciation, and taxes).
- *Net Profit* – is the total amount of money a business has made after *all* expenses have been deducted.

Taxes

Almost every business, no matter how big or small, must register itself with local or national authorities in order to collect *sales taxes* (also known as VAT or Value Added Tax). In return, the business will be issued a tax identification number and the necessary forms for recording tax information. Completed sales tax forms usually have to be sent to an official collection point at least once a month.

In addition to collecting sales tax or VAT, business owners are also responsible for paying local, state, and federal taxes - including property taxes. Much information is available about how to prepare taxes and most of it is given away free at government offices. Don't put it off. As with any business monetary transaction, check and recheck all figures before submitting a tax statement. Whether a business decides to handle its own tax matters or hire an account or tax adviser, if an error is made the *business owner* will be held accountable.

Advice from the Pros

- Every business, no matter how small, must have its own, separate bank account. Never conduct business using a personal account.
- Keep track of inventory very closely and eliminate money-losers (items that don't sell well).
- Don't try to hide revenues from tax authorities. If internal revenue agents believe - or even suspect - something dishonest is going on, they will swarm over your business for many years to come.
- The legal structure a business chooses has a profound effect on tax and insurance rates. Make sure you choose the right legal structure for your business (see Chapter 15).
- If you have no experience when it comes to accounting, hire a professional to look after your books. By asking questions and spending time with this person you may be able to gradually perform your own bookkeeping.
- Personally review and sign all business checks and payments. NEVER give anyone else the authority to do this for you.

Chapter 14
Naming Your Business (or Product) and Other Tasks Before Getting Started

> *I have learned that it's remarkably easy to do things and much more frightening to contemplate them.*
>
> Ted Simon

Once a business idea has been fully researched and deemed viable – and a business plan has been written - it's time to start taking action. Granted, it can be quite daunting turning an idea into 'bricks and mortar', nevertheless, it is important to take that first step and gain momentum ('Just do it!' is how one Canadian entrepreneur put it). The first step is to create a list of things to do with the aim of completing at least one task every day. Tasks can include testing the name of the business, putting together a logo, creating a workspace, setting up a website, ordering business cards and stationary, and so on. Ironically, these tasks are usually the most enjoyable because they: (1) involve creativity, (2) result in physical progress, and, (3) can be looked at, admired, and shared with others.

Naming the Business (or Product)

Many years ago, my uncle (Robert F. Steidel) was chairing a meeting at the University of California, Berkeley that had been convened to figure out why a planned course on water desalinization was not attracting the attention of students. 'Maybe we should make the title sound more interesting,' someone at the table suggested. My uncle agreed and called for the input of everyone present. Unfortunately, the attendees immediately began spouting out complex course titles, each lengthier and more pretentious than the last. Eventually, my uncle could bear it no longer. 'What's the purpose of this course?' he interrupted. 'Basically, it teaches people how to turn salt water into fresh water,' someone replied. 'Well then,' my uncle continued, 'why don't we just call it that?' Everyone agreed. The following semester, 'How to Turn Salt Water into Fresh Water' became one of the most popular courses on campus.

The moral of this story is that choosing the right name to represent a business (or product) is vital. Making changes at a later time can be time-consuming, expensive, and result in lost income. With this in mind, the following guidelines are recommended by experienced business owners:

1. Keep the full name short and simple and ensure that each of the words which make up the full name are equally as short and simple (one, two, or three syllables at most).
2. Describe what the business does in the name. Alliterations such as *Zips* or *Clicks* or even the first or last name of the entrepreneur, may roll easily off the tongue, but provide no insight as to what the business does. *Clicks Home Computer Repairs* is more specific.
3. Don't be too clever. Names that employ wordplay, gimmicks, or intentional misspellings more often than not denote that you are an amateur.
4. Make sure the name not only sounds right, but also looks right on a logo or sign.
5. Check to ensure that the name is not currently under copyright or trademark or is being used by another company. This can usually be done when registering the business.
6. Get the opinions of others. Throw out a few ideas to other people and judge their reaction. (For

example, the title of this book was changed at least five times before students and colleagues - and a few editors - stopped scrunching up their faces at it)

7. Avoid names that promote incompatible trades (i.e.: Frank's Income Tax Services, Lawn Mower Repairs, and Bee Keeping). Keep the name to a single purpose.

Choosing a Logo

Symbols are powerful advertising tools that reflect the character and competence of a business. If chosen wisely, a good symbol will radiate a positive image on signs, promotional materials, stationary, and packaging. Suggestions for producing a powerful logo include:

- Employ a graphic artist if one can be afforded. This doesn't mean hiring a multi-thousand dollar professional. Quite a few teenagers, college students, family members, or friends with computer skills have the talent to design a professional-looking logo if what is needed (and why) is fully explained to them.
- Choose a design that is both readable and applicable (both in big print and small print) on T-shirts, coffee mugs, pens, brochures, flyers, and other promotional materials.
- Make sure the design, lettering, and artwork reflect what the business does.
- Keep the colors simple and basic (more than four colors can result in high printing costs).
- Ensure that the color scheme reflects the character of the business. For example, earth tones and neutral colors denote environmentally friendly intentions. Fluorescent colors do not.
- Investigate the final design to ensure it is truly original and doesn't impede on any existing copyrights or trademarks. If the design is okay to use, copyright it and/or obtain a trademark as quickly as possible (see Chapter 16).
- Make certain that the design will not cost a fortune to reproduce.

Obtaining a Business Mailing Address and Phone Number

Many business operators insist on having a separate mailing address for their company in order to prevent their business and their private lives from mixing. For people that work from home this means looking into obtaining a post office box. Post office boxes are inexpensive and ensure that the entrepreneur gets out on a daily basis. Post office box numbers can also lend credibility to a business. For more information about post office box rates, contact a local post office or mail delivery centre for details. Additional advice from experienced entrepreneurs includes:

- If working from home, establish a separate business phone line.
- Establish a dedicated business e-mail address that is separate from personal e-mail.
- Keep business calls and e-mail replies short and to the point.
- Try not to respond to, or make, personal messages during established work hours.

Opening a Separate Bank Account

One of the golden rules of operating a successful business is to establish a dedicated, independent, business bank account. Keeping business finances apart from personal finances is not only necessary for tax reasons it also maintains a spirit of professionalism, which helps to keep the business focused on its purpose. To open up a business bank account it may be necessary to first register the business with local or state authorities. This is well worth the effort.

Setting Up a Website

A website does not have to be fancy or expensive. Although do-it-yourself website creation software programs are available, it is possible to find a designer who will not charge a fortune for his or her services (university students are a good bet). Keep the site basic and it shouldn't be expensive. A simple website can always be upgraded later. Following are a few website suggestions:

- Be concise and brief with all wording on a website.
- Remain consistent with the business's theme and purpose.
- Select a basic, appropriate color scheme (two or three colors) conducive to ease-of-use. Avoid black lettering on navy blue backgrounds or white lettering on yellow backgrounds.
- Provide an easy to use navigation system that allows users to easily find whatever it is they are looking for. If the website contains several pages, think about displaying a simple site map and search features.
- Don't employ too many special effects. They may distract from the central message.
- Avoid overloading the site with animations, pop-up boxes, auto-play music, busy backgrounds, unnecessary jokes and riddles, fun pages, and date and time stamps. Keep to the true purpose of the site.
- If possible, set up external links between different websites. The more links a website has the easier it can be found via a search engine.
- If money is tight, consider contacting an 'affiliate reseller program'. Quite a few companies or website providers offer free personalized websites to entrepreneurs if they agree to advertise and sell certain products on it. In addition, every time someone visits the site and makes a purchase, the entrepreneur is paid a commission. Presumably, another company's products and logo may distract from the website's theme, however, if the products are compatible then establishing connections with another company may entice more visitors to the site.
- Clearly indicate the contact address and numbers of the business and place a 'return to homepage' icon at the top and bottom of *every* web page.
- To keep customers coming back to a website give them a reason to do so by adding and updating tips, messages, special offers and/or events.
- Seek and listen to the opinions of others before putting a website on-line. Business websites are for the use and enjoyment of customers, not the business owner.
- Make certain the website address is clearly labeled on all advertising, business cards, stationary, and so on.

Ordering Business Cards and Stationary

Business materials (stationary, envelopes, business cards, brochures, etc...) that carry the name and logo of the business provide instant credibility. Even in the age of electronics, it is necessary to carry around business cards and promotional materials. Entrepreneurs that are not prepared to hand out a business card or a brochure while out and about may lose an unexpected opportunity forever.

Establishing a Separate Workspace and Work Time

Most people that work from home strongly advise that a separate area be designated for work purposes. This is done for psychological reasons as well as the need for a quiet area conducive to working without interruption. As mentioned in Chapter 7, zoning requirements in many residential areas do not allow for living space to be converted for office or business use. Therefore, check with local authorities before making any conversions.

A home work area should be a sacred spot that can be left behind without it being invaded by a spouse or partner looking for scrap paper, kids searching for treasures, or the dog looking for a place to nap. It should also be easy to walk away from at the end of the day. The temptation to do just a little bit more work before eating or going to bed is a real life-drainer (trust me on this). If work duties are not organized and kept apart from domestic responsibilities an entrepreneur can feel like he or she is drowning in work. To avoid this sensation establish a schedule that conforms to the hours when work is best performed. Plan each week in advance. Factor-in time for getting out, visiting clients, going to the gym, eating, doing research, reading, spending time with others, or just switching off. Many professionals find that work responsibilities are best accomplished in manageable allotments of time (e-mail answered by 10am, letters written before 2pm, proposals to clients made by 4pm, etc…). Again, don't forget to schedule and adhere to time for personal needs (eating, relaxing, winding down, etc). Stick to a set schedule for at least a month so it becomes established.

Insurance

Don't think that insurance is unnecessary or unaffordable. The alternative (i.e.: going without) may be far more expensive. If money is tight, consider meeting insurance obligations by joining professional organizations or local small business associations that offer reasonable group rates to small businesses. Don't assume that a homeowner's policy will cover a business run from your home. Most insurance companies insist that any form of business activity requires separate and specific coverage. Even a practice as benign as accepting a business delivery at home if your actual business is located elsewhere can nullify a home policy. When searching for business insurance, shop around for the best rates and service (and keep in mind that some insurance is tax deductible); otherwise, more insurance may be obtained than is needed. Examples of different types of available insurance coverage include:

- *Business premises*: which covers damage, loss, and theft.
- *Disability or critical illness insurance*: designed to cover personal income for several weeks after the entrepreneur has been rendered disabled.
- *General liability*: covers injuries to clients while on the premises and/or employees while on the job.
- *Life insurance*: protects your family.
- *Partnership and/or key-person insurance*: protects a surviving business partner by allowing him or her to purchase the shares of the deceased partner while offsetting tax liabilities. 'Key person' insurance covers the loss of an important employee from death, accident, or illness.
- *Product or service liability*: protects a business from lawsuits instigated by customers for products or services that don't meet expectations.
- *Vehicle insurance*: covers the business's vehicle(s). Regular car insurance will not cover a small business's vehicle insurance needs. A car or van used for business purposes must be covered by a separate policy.

Advice from the Pros

- Whether you work from home or rent separate premises, make sure that commercial leases or city ordinance laws allow a sign to be posted that declares the location and operating hours of your business. If you post a sign without first checking to make sure it's legal to do so, you may not only be forced to remove the sign; a hefty fine may have to be paid as well.
- Network! Network! Network! Don't let working from home hinder the necessity of networking. Get to know people in your industry and socialize with them whenever possible by making and scheduling the time to do so. Join a local chamber of commerce or a professional business organization.
- Particularly if you work alone, set and stick to deadlines even when you don't need them. Otherwise, procrastination may take over.
- Request feedback from customers on a regular basis. Feedback helps identify a business's weaknesses, helps keeps the entrepreneur motivated, and improves business skills and products.
- Work is often a direct reflection of your habits and appearance. When working from home, get up at a set time every morning, shower, and dress yourself in a professional manner. Don't put off personal hygiene and don't walk around half the day in your pajamas – your work will reflect it.
- Don't forget to appropriately insure yourself and your business. Most home insurance policies do not cover home businesses.

Chapter 15
Making Your Business Legal

> *Cheshire Puss,' Alice began… 'would you please tell me which way I ought to go from here?'*
>
> *'That depends on where you want to get to,' said the cat.'*
>
> Lewis Carroll

No matter where you are or what type of business you wish to establish, most countries have five types of business structures from which to choose. This means that before an entrepreneur can register his or her business he or she will first have to decide what type of legal structure is wanted (ideally, form should follow function).

Please note that the information in this chapter does not constitute legal advice. Rather, the explanations below present a broad overview of business structures and their relevance. Contact local county, regional, or city authorities (the same folks who distribute business tax collection information) for specific details, licensing requirements, and forms. Likewise, phone a local town hall or government office for advice as to where to start. In many instances, it's prudent to seek the advice of an attorney or accountant to fully understand the pros and cons of legal structure options before making a final decision. Also note that as a business grows or its needs change its legal structure can be changed as well (which involves additional paperwork and costs).

Legal Structure 1: The Sole Proprietorship (also known as Sole Trader).

Is it possible to start a business without having to fill out any forms or pay any registration fees? In some cases, yes. For example, in the United States (and many other countries) there is no need to file any *federal* paperwork to become a sole proprietor (some countries require registration only if revenues collected from the business exceed certain levels). It may be necessary, however, to register the name of the business with *local* or *state* government offices (again, check with regional authorities). Registering a business usually entails filling out a few forms (including tax forms) and paying a fee. Bear in mind that a sole proprietorship does not necessarily mean that one person works in the business. It means that one person *owns* the business. Generally speaking, sole proprietorships are not difficult to setup and reporting taxes is easy. For example, in the USA, a profit and loss statement (called a 'Schedule C') attached to a standard 1040 IRS form is all that's required.

Advantages of a Sole Proprietorship

- No interference from partners or shareholders.
- Simpler tax structure.
- Minimal legal paperwork.

Disadvantages of a Sole Proprietorship

- Loans can only be obtained based on the owner's reputation and personal guarantee.
- Creditors and investors can go after the owner's personal property (i.e.: all the owner's personal assets can be liquidated or seized to cover debts).
- There are few tax benefits (many expenses can't be written off).
- Business and personal finances can be mixed together, which can cause trouble.
- The business can be difficult to sell because the brains and experience behind it (the owner) can't be sold.

Legal Structure 2: Partnerships

A partnership consists of two or more people joining together to form an enterprise. If an entrepreneur is a loner by nature or simply wants to run his or her business single-handedly, a partnership may not be suitable. However, if the entrepreneur enjoys working with others, or needs the input or experience of someone else, or requires the added borrowing power, finances, or moral support of a partner (or partners) this structure may be ideal. Taking in a partner(s) is a decision that should not be made lightly. No matter how well two people get along, running a business together is a different ballgame. Effective partnerships require the full defining of the business beforehand and a clear explanation (in writing) of each person's role in it. In some regions different types of partnerships exist ranging from 'senior partnerships' (where some partners have more rights than others) to 'cooperatives'. There are other issues to consider as well. For example, if the spouse of one partner is involved in the business, the other partner may have to constantly defend his or her decisions to that spouse rather than the partner, which can lead to conflicts. To avoid the numerous problems that can arise from a partnership the following issues should be covered in the business's written articles:

1. The date the partnership is formed.
2. The names and living addresses of each partner.
3. A full description of the business's purpose.
4. The amount and type of investment made by each partner.
5. The responsibilities and roles of each partner (as well as the inclusion or exclusion of family members).
6. Profit and loss arrangements for working partners (e.g.: those who help run the business) and non-working partners (e.g.: those who invest in the business, but are not involved in day-to-day operations).
7. A plan that states how assets will be distributed if the business is dissolved.
8. A provision that explains what will happen if a partner decides to leave, is forced out, or dies. (This includes buy-sell agreements, insurance settlements, and wills.)

Advantages of a Partnership

- Simple legal forms (to form a partnership in the USA, a Federal Employee Identification number is required from the IRS [form SS-4] and a Schedule K1 is sent to each partner).
- Simple tax structure (in the USA, a 1065 form must be submitted with the standard 1040).
- A limited financial risk for each partner exists if, through a Limited Partnership Agreement, the amount each partner can legally lose is stated as the amount he or she invested in the business.

Disadvantages of a Partnership

- Each partner is responsible for the acts of the other. In other words, if one partner skips town, the remaining partner can be held liable for any damages or debts.
- Without a Limited Liability Agreement, all personal assets owned by the partners can be liquidated or seized to cover any debts.
- Friction can and does develop between partners.

Legal Structure 3: Limited Liability Companies

LLC's can be set-up by an individual or partners. In legal terms, the owners of an LLC are referred to as 'members' (a member can be a person, a partnership, or a corporation). The main benefit of an LLC is that, somewhat like a corporation, owner(s) of the company are protected from personal liability in regards to business debts and claims.

Advantages of a Limited Liability Company

- LLC's allow for the selling of stock, which can raise capital.
- LLC members are personally protected from lawsuits that seek company assets.
- The tax structure is simple: owners can usually report income and losses on their own tax forms.
- Members of an LLC determine how to divide and distribute profits (unlike a corporation, which has this procedure governed through by-laws).

Disadvantages of a Limited Liability Company

- An investor can lose his or her entire investment because creditors can't go after the personal assets of the owners.
- 'Article of Organization' forms must be filled out and filed (a document similar to the *Articles of Partnership* issues mentioned above should also be completed).
- There is a lot of paperwork involved in the selling of stock.
- Compared to corporations, LLC's can not write-off as many benefits.

Legal Structure 4: Incorporation

By definition, a corporation is a legal entity. This means it can own property, sell property, sue, and be sued. Generally speaking, most business owners incorporate their businesses due to the advantages of legal liability. Put another way, if the corporation fails, creditors can't go after the owner(s); they can only go after the assets of the company.

Setting up as a corporation is the most complicated (and expensive) form of business structure. This is because expenses are entailed in legally explaining the nature of the business, setting it up, and registering it. For example, filing fees may only be a few hundred dollars, but preparing the required documents can cost many times that amount. Additionally, annual reports, by-laws (which state how the corporation will be governed), and yearly state and federal tax forms must also be completed. Regardless of the type of corporation that's desired (see 'S Corporation' below), every corporate charter should include the following:

1. The name of the corporation, its location, and the date of incorporation.
2. A formal statement of corporate formation.
3. The names and addresses of all partners and directors.
4. A full explanation of the business and its activities.
5. Classifications as to the type of the corporation's stock as well as the number of shares for sale and the value of each share.
6. The voting privileges of stockholders.
7. A listing of the names and addresses of all capital stock subscribers.
8. A statement of limited liability of the stockholders.

Advantages of Incorporation

- Stock can be sold to raise capital or be offered to employees as financial compensation.
- If the corporation is extremely profitable, it can save money by re-investing the profits in the company rather than paying them out.
- Having the letters 'Inc.' after the name of a company shows clout.
- Some companies will only do business with corporations due to liability issues.
- There is no personal liability risk if someone sues the business.
- Profits can be used for health benefits.

Disadvantages of Incorporation

- Incorporation is expensive because it usually requires the knowledge and skills of an attorney to complete all the paperwork.

- Profits not withheld or reinvested are liable to taxation - as are profits used to pay salaries and wages.
- If an owner does not own the majority of shares in a corporation, he or she may lose control of it.

Legal Structure 5: Subchapter S Corporations

A Subchapter S Corporation is similar to both a Corporation and an LLC. It is, however, easier to sell stock in an S Corporation than an LLC. The main difference between an S Corporation and a regular corporation, however, is that an S Corporation does not have to pay corporate taxes. Instead, profits and losses are passed on to shareholders who report money made or lost on their individual tax statements.

Make certain the differences of incorporation are fully understood before choosing between an LLC, incorporation, and an S corporation. For example, as a small business owner, some experts suggest that it's preferable to set-up an LLC rather than an S Corporation because S Corporations are more restrictive. Other sources claim that S Corporations are the better choice for those nearing retirement because income can be classified as a dividend. Check with an attorney, accountant, or tax authority to determine the best option.

Advantages of an S Corporation

- It is easier to sell stock in an S Corporation
- Corporate taxes are not paid.

Disadvantages of an S Corporation

- Two or more individuals are needed to form an S Corporation
- Investors (partners) cannot go after the personal assets of a corporation's owners if the business fails
- The owners of an S Corporation are financially compensated by the proportion of stock they own, not by a partnership agreement.

Staying Legal (or Keeping Abreast of the Law)

Once a business starts off legally it must strive to ensure that it stays that way. In part, this involves being aware of the Latin term 'Ignorantia legis neminem excusat', which translates as 'ignorance of the law is no excuse'. All over the world, this dictum is in full legal use. In laymen's terms what this means is that every town or city has hundreds, if not thousands, of laws that pertain to running a business and entrepreneurs are responsible for complying with all of them. Failure to do so can result in hefty fines, law suits, or expensive days in court. Examples of seemingly innocuous actions that can lead to trouble include:

- Posting signs or displaying lights.
- Running a business out of a home or apartment.
- Placing tables and chairs outside a restaurant (which often requires a special license).
- Operating a bed and breakfast that exceeds a certain number of beds (a fire certificate is needed).
- Using company vehicles that are over a certain weight (a special operating license may be needed).
- Keeping personal data on customers (this may require registering with authorities).
- Selling alcohol, tobacco, or combustibles (which always require special licenses).

Since it's almost impossible to keep track of every law and statute, a good rule of thumb is to not go it alone. Always check with local authorities, local business development centers, or an experienced business attorney before setting up shop or making *any* changes to an existing business. Those who operate under the creed that 'it's better to beg forgiveness than ask permission' are asking for trouble.

Advice from the Pros

- When choosing a business partner, select someone whose strengths balance out your weaknesses and vice versa.
- Avoid trying to save money by registering a business in a city, state, or country where the registration fees are cheaper. This usually leads to having to pay a second registration fee in order to comply with local regulations in the region where the business is actually located (this is especially true in the USA).
- Be wary of setting up a business overseas. It's often very difficult for people to start a business in a country where they're not legal residents. The paperwork, bureaucracy, and fee collections can be a nightmare.

Chapter 16

Protecting Your Business with Copyrights,Trademarks, Patents, and UPC Codes

> *There are two kinds of people, those who work and those who take the credit. Try to be in the first group, there is less competition there'*
>
> Indira Gandhi

Intellectual property is a collective term that refers to the laws that protect copyrights, trademarks, and patents. It's a sad fact of life that the world is full of derivative thinkers eager to pounce upon someone else's idea because they can't come up with one of their own. Acquiring a copyright, trademark, or patent can prevent this from happening to you. That is not to say that these methods are foolproof -- unfortunately they're not. They do, however, make it difficult for someone to steal another person's efforts and market them under another name.

Copyright

A copyright is designed to protect the author of an original, artistic, academic, or literary work in a written, drawn, or performed format. This includes fictional and non-fictional writing (even on the Internet), architecture, drawings, paintings, sculptures, photographs, films, videos, musical scores, songs, theatrical works, choreography, and computer programs. In a business, advertisements, booklets, brochures, databases, instruction manuals, and price lists also fall under the copyright umbrella. It's important to know that although all of these communication vehicles can be protected by a copyright, *ideas* themselves cannot be copyrighted. When an idea is *written* down, however, it is somewhat protected.

A copyright protects an original work in what is called a 'fixed' (written) format. Keep in mind that there is no such thing as an 'International Copyright Law'; anything that is written down is automatically covered by copyright in most parts of the world. This means that a person does not have to register his or her material with a government office in order to own a copyright. Unfortunately, if unregistered material is copied or stolen and used for commercial purposes by someone else, the creator of the work will have to prove that it was his or hers first. That's why it's a good idea to officially register all material that needs copyrighting. Additional advantages of registering original work include:

- it provides a public record that states who owns the copyright,
- it offers assistance in providing proof of the original owner or creator,
- it establishes control over any reproduction of the copyrighted work,
- it provides control over any derivative work based on the copyrighted material,
- it provides control over the right to display copyrighted work publicly, and,
- it offers protection against copied imports of the work from entering the originating country to be sold under the guise of someone else's work.

Copyright provides protection from the moment a work is verifiably written down until up to 70 years beyond the creator's death. By writing the words 'protected by copyright' on a documents or including the international copyright symbol (©) a work becomes copyrighted.

Trademarks

Trademarks protect the logos, names, or slogans associated with a company and are designed to protect customers from confusing one product or business with another's. Services can also carry a trademark (which is called a service mark). Note, however, that a trademark does not prevent other businesses from producing something similar to whatever it is that carries the original trademark and selling it under a different name.

Trademarks and service marks are provided on a 'first come, first served' basis and last for as long as the name, logo, or slogan is used to identify a product or business. It is therefore advisable to register a trademark as soon as a name, logo, or slogan has been developed – as well as to ensure that what has been designed is not registered by another company. In the United States, for example, this can be done with a trademark check by logging on to www.uspto.gov.

Whether a trademark or a service mark is used, the name it protects should be claimed as inseparable from an added purpose description. For example, if a cross-town delivery service is known by the name 'Zippy's', it should include the phrase 'Cross-Town Information Movers' in its advertising trademark. If not, any company can use the words 'Cross-Town Information Movers' in its name thereby causing confusion and perhaps taking away business from the originating company. This may sound trivial, but the *Otis Elevator Company* lost its exclusive right to use the word 'escalator' in its advertising by omitting that word in the text of only one of its advertisements. The infamous ad referred to the company's product as an 'Otis' rather than an 'Otis Escalator', which, after a lengthy court case, allowed every moving staircase manufacturer in the world to use the word 'escalator', despite the fact that 'escalator' was a word Otis had coined.

Registering a trademark or service mark is easy, but it can be a bit on the expensive side. In the USA, for example the process can cost well over $300. To get started, contact the U.S. Department of Commerce Patent and Trademark Office in Washington DC (www.uspto.gov) and ask for the correct form.

Patents (USA data)

A patent protects a 'fixed' and unique discovery that changes a field of endeavor. Patents do not protect ideas, suggestions, or ways of doing business. The purpose of a patent is to protect the rights to manufacture or produce a product *and* to provide the ability to stop production or manufacturing of that product by another party. There are four categories of patents (each with variations) that can be generally described as follows:

1. *Design Patents* protect the external appearances of a product that are both innovative and non-functional (i.e.: they must not be a functional part of the mechanics of the item). In the United States, filing fees average $180 and are good for 14 years.
2. *Plant Patents* protect new forms of vegetation that have been produced artificially (for example, a cross between a rose and a tulip). In the USA, filing fees average $400.
3. *Provisional Patents* start the patent process. Provisional patents last for one year, cost around $260, and state that a patent is pending while the instigator decides whether or not to pursue a full patent.
4. *Utility Patents* cover inventions or innovations that are considered unique and functional and that fit into one of five categories (composition, improvement, machine, manufacturing, or process). In the United States, filing fees average $400 and last 20 years.

Three Do's and Don'ts Regarding Patents

1. Never discuss a new product with a business, corporation, or manufacturer without first

securing your rights and speaking with a qualified attorney or patent agent. Patent applications are very specific, demand excruciating detail, and contain highly technical legal language. If they're not filled out properly they can take years to file and result in the wasting of vast sums of money.

2. Before a patent can be issued, a detailed (and usually lengthy) search must be done to make certain the idea is unique and worth patenting. Average patent-process waiting times run into the years, not months. Be prepared to answer a lot of questions from patent officers and be aware of the costs. Although the filing fees average in the hundreds of dollars, the entire process (due mostly to legal costs) will probably cost thousands of dollars or more.
3. If an entrepreneur has developed something unique that requires a patent, the Disclosure Document Program will help establish a date of ownership (not unlike a registered copyright) to protect his or her rights during the patent process. This document must be filled out by the inventor and submitted to the Patent and Trademark office where it is kept for two years.

Playing It Safe

For a more in-depth look at copyrights, trademarks, and patents (particularly to ensure that no changes have taken place since the publication of this book), it is strongly recommended that you seek advice from an attorney, a local chamber of commerce, a small business advisory centre, or a similar qualified organization. Of course, no copyright, trademark, or patent held by a business will provide complete protection against the claim of another individual or company if it can be proven that the documents of the second business predate the first business's filing. However, if a copyright, trademark, or patent does exist, the business or person that holds proof of earlier registration stands on much stronger legal ground.

To ensure that your original work is protected, try to establish a paper trail that can be used in court to prove that an idea, its name, and the product behind it are original by adhering to the following:

- Keep track of (and date) meetings, market research, and the names of the people you spoke with about an idea or product. Maintaining an up-to-date file, notebook, or diary is also a good idea.
- Perform a check to determine if your product or business name is not already protected by a trademark.
- Have important documents officially notarized.
- Periodically take any materials that need protecting and place them in a *sealed* envelope. Sign across the seal, secure it with transparent tape, and have the envelope placed in the safety deposit box of a bank or mail it to yourself. If it's mailed back to you, don't open it when it arrives. The postmark on the envelope will provide a valid proof of date.
- Use registered mail whenever you send out materials, catalogues, or written plans.
- Write a nondisclosure agreement and have it signed by those who will be examining, discussing, or testing a private product or idea that is under development. A nondisclosure agreement is a written agreement that forces a receiver to acknowledge that a product or idea is confidential (examples of nondisclosure agreements are found on the Internet).

Obtaining a UPC number and a Bar Code for Your Product

Most retailers will not accept merchandise without a Universal Product Code number (UPC) and a bar code. A bar code is the black and white striped badge seen on the back of every product's packaging. The UPC number sits directly below it. UPC numbers and bar codes are invaluable when it comes to inventory control. Unfortunately, they do not give a business much legal protection, but they do provide a unique identification for a business's products by describing them and their cost in a numerical code. In addition, bar codes and UPC numbers make products look more professional.

To obtain a UPC number (which is distributed by a non-profit organization called the Uniform

Code Council), contact: www.uc-council.org, click on 'I Need a UPC Bar Code', and follow the instructions. After the forms have been filled out and the fees have been paid, processing takes about two weeks.

Advice from the Pros

- Take advantage of established legal protection tools (copyright, trademark, and patent) by using the international symbols of copyright and trademark on products and written material.
- When obtaining a patent, work closely with a professional to ensure that your ideas and intentions are not watered down. Patent attorneys have been known to unwittingly change the claims on a patent application, thereby rendering the patent less profitable. In addition, some attorneys may be unaware of changes in the law or write legal templates that do not stand up in court. To protect yourself and your invention, always get a second opinion before filing.
- If you have a great business idea and are relying on its uniqueness to bolster its profit potential, try not to publically brag about it. While collecting research for this book, I spoke with a man who claimed that he once worked for a company that employed an entire department of people who did nothing but forge and falsify documents that predated the original copyrighted filings of other businesses – thereby allowing the dishonest company to safely use the work of its competitors.

Chapter 17
Re-Energizing

> *When you're in a slump, you're not in for much fun.Un-slumping yourself is not easily done*
>
> Dr. Seuss (Theodor Geisel)

Many first-time entrepreneurs don't realize all the hard work that's involved in setting up a new business venture. Equally as disconcerting are the moments of self-doubt that many first-time entrepreneurs – as well as quite a few seasoned professional - experience when things don't seem to be going their way. Like it or not, self-doubt, days where one appears to be floundering, or feelings of being overwhelmed are an inseparable part of the entrepreneurial lifestyle for both beginners and pros alike. For example, after many years of business success – and a confidence-instilling vote by *Management Today* magazine naming her as one of the UK's top 30 entrepreneurs - *MJM International* founder Michelle Mone admits that there are times, throughout every business day, when she is still consumed by moments of despair.

Feeling Overwhelmed and its Relation to Time Management

Feeling overwhelmed is usually a result of either not knowing how to deal with the unknown or the prolonged avoidance of a situation that must be faced. The longer such situations remain unattended the worse they tend to get. Most experts agree that a major reason for feeling overwhelmed is not managing time effectively. Indeed, virtually every entrepreneur questioned for this book either implied, or outright stated, that he or she wished there were more hours in a day. Of course, nobody can add more hours to a day, but the 24-hours that are available can often be managed more wisely, which can allow for more to get done (for a reminder of what has to be done, see page 119; *How Small Business Owners/Operators Spend Their Time*). Following is a compilation of suggestions designed to help resolve poor time management practices:

- When moments of self-doubt creep in, remind yourself *why* you're starting a new business challenge and what you want to achieve. Reviewing goals and ambitions can help to re-establish direction and commitment by examining what needs to be done (and not done) while also revealing incremental, manageable steps that will more easily take you where you want to go.
- Get in the habit of taking 15 or 20 minutes at the beginning and end of every day to plan ahead and focus. The key to managing time efficiently often lies in structuring the day. Without structure, a business project can easily become a tangled mess of seemingly unrelated tasks.
- Make a list of daily and weekly duties and rank them in order of importance.
- Next to each duty write down the best or only time to perform it (e.g.: some duties can only be done in the morning, others only in the evening, or on a Tuesday, etc.).
- Examine the big jobs and briefly write down the steps needed to tackle them. Often when a big job is seen as a series of stages, it becomes less daunting.
- Determine how much time is realistically needed to accomplish regular tasks and odd-job tasks.
- Lump together the tasks that can be performed at the same time (For example, going to the bank, picking up shirts from the dry cleaners, shopping for office supplies, and so on. These should be combined into one trip, which prevents having to make several trips).
- Set deadlines for task completion. This helps prevent procrastination from setting in.

- Clear all work areas of clutter. An organized work area helps instill concentration.
- Attack the most urgent priorities first. Do one task at a time and don't stop until it's finished. That way, at least one task will have been tackled no matter how difficult the day becomes.
- Don't keep putting off little things. They add up.
- Learn to say no to outside requests for help. Offering a helping hand to friends, co-workers, and neighbors is kind and considerate, but there comes a time when every entrepreneur needs to focus solely on his or her own responsibilities.
- If the time allotted for a task is unrealistic, consider *briefly* adding more time to your day. For example, get up an hour earlier or take less of a lunch break. Adding one hour of extra time to each workday can provide the equivalent of two extra weeks a year. Just don't make it a habit.
- If you feel extremely overwrought, discuss your situation with a partner or spouse, with a friend, with someone in the same business, or with a professional at a local business development centre. When everything is out in the open and it's realized that the road ahead is survivable (which is usually the case), negative feelings tend to dissipate.

The Warning Signs of Stress and Overwork

Given the choice between living and working, some entrepreneurs find that living is the harder of the two. Although long hours of work don't necessarily cause damage on their own, negative consequences can and do set in when *endless* hours of work begin to take a toll on health or relationships. Put more succinctly, hard work is necessary to make every business succeed, but overwork is counterproductive. Without rest or some form of 'downtime' weaknesses tend to amplify and strengths diminish. Whenever an entrepreneur find himself or herself besieged by negative comments from friends and family about non-stop work habits, *or if one or more of the following symptoms appear*, it's probably time to step back and take stock of the situation:

- irritability or a short temper (particularly during simple, everyday situations such as waiting in line or being caught in traffic),
- bad headaches,
- sleep disturbances, insomnia, or constant tiredness,
- any behavior that is out of character (including having little feeling or emotion),
- increased use of drugs, alcohol, caffeine, or cigarettes,
- illness (particularly during weekends or holidays),
- constant upset stomach,
- low morale,
- teeth grinding,
- an inability to relax – or working endlessly without appearing to tire,
- feeling that relaxation is a waste of time or feeling anxious about being away from work, the phone, or a computer,
- constantly missing family gatherings or engagements,
- sudden weight loss or gain,
- lingering flu or colds, and/or,
- forgetfulness.

Don't limp through a business start-up in a state of denial. If left untreated, the build-up of stress that causes these symptoms can lead to more serious disorders including depression, cardiovascular disease, muscular and skeletal ailments, ulcers, skin problems, allergies, the inflammation of other maladies (such as diabetes and arthritis), and even cancer. No business dream is worth that.

Suggestions for Eliminating Stress

Few would dispute that endless amounts of work produce stress or that stress in the form of safe and regular physical exercise is good for the body and mind. However, physical exercise is voluntary and by its very nature allows the body to rest and rebuild afterwards. Work related stress, on the other hand, is different. It grips and doesn't let go, thereby grinding the mind and body down day after day.

The humorous response of a bakery owner in Belgium who advised me to tell my readers to 'take lots of Valium' if they plan on starting and running a business, attests to the fact that entrepreneurs regularly face stress. Yet constantly taking medication to combat stress is not a viable (or healthy) long-term option. Regularly energizing the body and mind is integral to the elimination of stress. Before that can happen, however, one must first recognize that a problem exists. The next step is to address the cause (not the symptoms). For example, taking aspirin may reduce a work-induced headache, but it will not reduce the *cause* of the headache. Following are several preventative ways to control stress:

- *Take charge of work situations*. Set personal limits and avoid unrealistic deadlines. No one can give 100% of his or her physical and intellectual time day after day, month after month without suffering in some way. Control your work - don't let it control you.
- *Pace yourself*. Stay flexible and slow down.
- *Periodically stop and relax*. If it's impossible to escape work each evening, find time(s) to relax throughout the day, even if all that can be mustered is 15 minutes with your eyes closed (some studies suggest that the best way to optimize this is to do so while lying on your back on the floor).
- *Open up to others*. Discuss problems, fears, and frustrations with those who can be trusted. As the old adage says, a problem shared is a problem halved.
- *Do things for others*. Selflessness is a great stress alleviator. To reduce tensions and frustrations, think about someone else's needs and satisfy them.
- *Exercise regularly*. Many experts agree that engaging in *regular*, measured, safe physical activity is the most potent stress-buster of all.
- *Balance work and recreation*. Few people die uttering the words, 'I wish I'd spent more time at the office.' Schedule periods of recreation and quality time apart from work.
- *Engage in a non-competitive activity that breaks up the monotony of a normal workday*. Read a book about someone famous, practice yoga or meditation, go hiking, play with your kids, learn to cook a new dish, or visit an art gallery or museum.
- *Adopt an outside interest or hobby* without having it take over your life. In other words, make certain the hobby is not work related.
- *Don't look for relaxation in the form of a bottle*. Whether through pills or alcohol, don't try to escape work pressures via chemically induced means. This will only lead to more problems.
- *Take a vacation, or, at the very least, take a day or two off*. Most business dreams will not crumble if a few days are taken to relax, unwind, and reinvigorate. The key to eliminating most forms of stress is to plan the time to relax on a regular basis. As famed psychologist and philosopher Erich Fromm once said, 'a person's main task in life is to give birth to himself (or herself) and to become what he (or she) potentially is.... and the most important product of this effort is the development of a personality.' Needless to say, it's difficult to develop a healthy personality if every minute of the day is consumed with work.

Advice from the Pros

- Learn to manage time effectively. If you can't manage your time effectively you probably won't be able to effectively manage your business.
- No matter what type of project you're undertaking, remember that any form of progress, no matter how small or insignificant, is progress and should be considered as such.
- Admit that frustrations, false starts, and mistakes are part of the learning process and are often just as important as successes.
- Be emotionally mature enough to recognize distractions throughout the workday and strong enough to deny their temptation – both of which can be achieved through practice and refinement.
- Know that no business is worth your health.

Chapter 18
Announcing the Existence of Your Business

> *The difference between involvement and commitment is like an eggs-and-ham breakfast: the chicken was involved; the pig was committed'*
>
> Anonymous

Learning about business issues, researching the market, testing a product, putting together a business plan, and resolving the hundreds of tasks that have to be dealt with before a business is launched can take months to complete. At some point, however, the groundwork will have been completed and it will be time to set an opening date. This is the day of reckoning – the moment when the business is ready to present itself to the public. Of course, it's ludicrous to throw open the doors of a business with the expectation that customers will be lining up outside waiting to hand over their money. It doesn't work that way. As with all aspects of entrepreneurship, opening day requires forethought and planning and efforts must be made to ensure that customers are primed and ready. With studies showing that most people need to hear about a product three to seven times before they decide to try it, this means that every entrepreneur has his or her work cut out bombarding the public with publicity announcements.

Preparing to Advertise

Advertising is not a one shot deal. Businesses must advertise on a continuous basis in order to stay solvent and the largest consumer of cash in this endeavor is likely to be the media (e.g.: newspapers, journals, magazines, radio, and television as well as public displays (e.g.: billboards). Once word gets out that you're looking to advertise, you will probably be visited by hoards of salespeople hoping to sell ad space. Don't be tempted to say yes to these people straight away. Quite a bit of homework needs to be done first.

The downside of advertising (in all its forms) is the sheer amount of it that surrounds us. The resulting barrage of words, pictures, and sounds often results in the intended audience tuning out. Advertising budgets must therefore be used prudently. For example, it's probably not sensible to advertise a product that women use in a magazine designed for men. Local media markets must first be checked to ensure that the advertisement (and the medium in which it's presented), will fit the intended customer base. This is done by determining the most popular mediums and verifying how much of the market the medium 'penetrates'. Such information is readily available to the public because it sets advertising rates. Check with local business development centers or an advertising governing body for sources of media rankings. Additional suggestions include:

- **Determine the 'cost per thousand'** (or **CPM**) before considering buying any advertising space. CPM refers to the overall cost of reaching 1,000 people. To calculate it, take the cost of an ad and divide it by the estimated size of the audience (in thousands) of the medium in which the ad will appear (for written publications the audience size is called the circulation number). The result provides an indication of how much money it costs to reach 1,000 people – thereby showing the best value for money
- **Put together a media/press kit**. Write a short, one page, fact-based, 'media release' that explains your business, what your product does, who the product *benefits*, and the impact the product will have on customers (i.e.: the time and/or money it saves, the safety it provides, etc).

Focus on the *benefits* the product provides rather than adjectives and fluff (see Chapter 28, *Selling 101: Understanding Customer Motivation*). Print the benefit message on the back of business cards, on the side of your business's vehicle, on shirts and hats – and so on.

- **Keep an updated notebook** that carefully records your advertising budget, your goals, descriptions of various media outlets and their audiences, demographics, dates, and your advertising strategy. Equally as important, accurately record the *results* of all your advertising campaigns. Future marketing decisions can be weighed against this information.
- **Stick to the following five principles** in all advertisements:

1. Promote one message. An ad should convey its message in three seconds or less with a suitable tag line that explains the major benefit of the product (see Chapter 23).
2. Strengthen the message with credible claims. Don't simply state that the product saves time and money – show how much time and how much money it saves.
3. Test all ads before releasing them. Let four or five competent people judge the ad for effectiveness. If the response is negative, change the ad. The purpose of an ad is to delight potential customers, not the ad's creator.
4. Make the ad easy to read and use. Ensure that it contains all necessary contact information - including website and e-mail addresses – along with an incentive for customers to buy the product. Make it easy for the effectiveness of the ad to be determined by including a coupon or special announcement that enables you to track the results.
5. Create curiosity. Many successful advertisements are not designed to sell a product or service outright. Instead, their intention is to generate interest. For example, if an accounting service is being offered, rather than state how wonderful the service is, create curiosity by saying something like: 'If you're paying more than $5,000 a year in taxes, learn how you can reduce this amount by 20% or more!'

- **Consider all advertisement options and benefits** (and their costs) before choosing an advertising medium.
- **Change ads after they've been given a chance to perform**. Do not let advertisements get stale, yet at the same time don't pull them so early that they don't have time to be effective.

Get the Word Out

Marketing a business involves much more than advertising. All advertising should be complimented with other marketing options that are as limitless as your imagination. Tried and tested examples include:

- *Freebies* – free items that are passed out to potential customers obviously have to be paid for, but the attention they draw often turns heads. Freebies are great for grand opening events (as well as networking) and include everything from free samples to bookmarks, coupons, refrigerator magnets, tee-shirts, pens, buttons, drink coasters – or anything useful onto which a logo and business name can be attached.
- *Local Events* – neighborhood gatherings offer wonderful opportunities for targeting specific customers and their families. Remember the dog-poop collection businesses mentioned in Chapter 3? One enterprising business owner in this industry dressed up in a superman costume and attended a dog show where he passed out business cards. He drew so much attention that he didn't need to do much advertising after that.
- *Mail Outs* – although sending out brochures, postcards, letters, or leaflets in a direct mail campaign is both time consuming and expensive, mail-outs can help follow up with customers that have already expressed an interest in your business. Mass mail-outs not targeted to a specific clientele typically generate a response rate of 1%-3% so the results may not be worth the effort. Knowing the details of the intended recipients beforehand is a good way to increase the

odds of success. Unfortunately, collecting addresses can take months, printing costs are high, stamps have to be purchased, and collating and folding and stuffing material into envelopes can take days to complete. To facilitate success, establish a database of bonafide names and addresses before attempting a direct-mail campaign - and include an incentive for the recipient to respond rapidly (for example, taking five-percent off prices if the customer responds within two weeks).

- *Social Media – Facebook*, *Twitter*, *Instagram*, *Pinterest* and other e-mediums have their place, but don't rely on them too much without backing them up with more substance. This is explained in more detail on page 106 ('*Don't rely on social media*') and page 134 (*The false Illusion Inherent in Digital*).
- *Press Releases* – newspapers, magazines, newsletters, and television and radio stations are constantly on the lookout for new stories. Is your business opening in a depressed area? Is it servicing needy clients? Perhaps you're planning to donate your products or services to an orphanage or hospital. Or maybe your business or its marketing methods are so unique they constitute a story all their own. Whatever the angle, no one in the media will know what you're doing unless you make the first move. Try to locate a reporter or a journalist that specializes in your field or industry and give him or her materials from your media/press kit (journalists can be notoriously sloppy with facts and figures so providing them with this information will help enormously). If the interest of a journalist can't be attracted, consider writing an article instead. Remember, don't make your product the central theme of the story. The message is in the benefit(s) your product provides to the community. Remember also to write the article using the same style the publication uses. Editors love text that resembles their own work.
- *Promotional Tie-Ins* – Can your product compliment or enhance that of another business or event? If so, keep in mind that other businesses have client lists, mailing lists (including email lists), and newsletters that may be of benefit. To tap into these resources, find out how the other enterprise will profit from collaboration (always approach a promotional tie-in scheme from this angle). For example, if your product is aimed at youngsters, show a local school how it can be used to enhance a scholastic activity program. Similarly, perhaps your product or service will benefit the members of a local association or club. If so, donate some time to these organizations in exchange for a mention in their advertising literature.
- *Speaking Engagements* - consider speaking at conferences, seminars, toastmaster meetings, or similar gatherings that will benefit from your product. This method of face to face contact is exceptionally helpful in promoting service businesses.

Grand Openings

Contrary to popular belief, the term 'grand opening' does not refer solely to the first day a business begins trading. Grand opening styled extravaganzas can be used to introduce new product lines, promote a new refurbishment, announce a major sale, or take advantage of an upcoming event. Obviously, some businesses may not benefit from a clown passing out free balloons however, if favorable attention can be directed toward a product through a carnival atmosphere it may be wise to offer one. Just bear in mind that once the date for a grand opening has been publicized it must be met.

The following steps will help ensure that a grand opening goes smoothly:

1. Before setting a date, investigate and write down the types of customers wanted, how many are wanted, and how much they will buy. This helps provide direction, aim, and planning. Be reasonable, however, when it comes to targeting customers. The worst grand opening I ever saw was a costly event where invitations were sent only to physicians and lawyers because these people were the only customers the business owner wanted. Needless to say, no one (and I mean *no one*) showed up despite the fact that an elaborate and expensive buffet and drinks table

had been laid out and a violin quartet had been hired. (When it comes to opening a business the appropriate expression is 'beggars can't be choosers')

2. Determine an opening day budget and stick to it. Resist the temptation to spend more money than what can be afforded. Some experts insist that the single greatest mistake a small business can make is to over-stretch its budget by advertising in expensive mediums that do not reach intended customer bases (see Step 1).
3. Avoid launching a new product or business on the same day as a major event (a sports game, a parade, a major holiday, a public anniversary, etc.). Unless your business will enhance such events, it will be in direct competition with them.
4. Consider holding a grand opening a few weeks after the business has actually opened. According to some practitioners, this gives the business time to 'iron out its wrinkles'.
5. Whenever possible, invite government officials or local dignitaries and personalities to the opening. Doing so almost always guarantees media coverage.
6. Contact local radio stations and tell them about the grand opening. Most radio stations love promoting local events, particularly if a carnival atmosphere is involved and freebies are handed out. Offer to put up posters or hand out promotional materials for the media in return for their participation.
7. Use as many 'grassroots' methods as possible to attract attention. This includes the distribution of flyers and invitations, using the phone book to make marketing calls, putting up posters, and so on. Be creative.
8. If possible, pair up with a charitable cause and let it promote itself at your grand opening. By pooling resources with an established charity the chances of customer attendance increases and the business may be seen as a welcome addition to the community.
9. Always provide an incentive for people to take time from their busy schedules to attend the opening (e.g.: hand out coupons, offer special discounts, provide drinks and refreshments, hold a raffle, etc).
10. Offer something for everyone such as coffee for adults; balloons or sweets for children, and snacks, decals, and tee-shirts for everyone in between. Everyone that comes should feel welcome.
11. Use the grand opening to its full potential. Show off the business's personalized service, network with customers, work on creating or enhancing a customer data base, collect business cards – in short, do everything possible to strengthen customer contacts.
12. Collect e-network connection information from potential customers (email addresses, *Twitter* accounts, etc).
13. Keep a file and record the results of what happened. This prevents having to 're-invent the wheel' every time a marketing idea is needed. It also allows the business to dissect and analyze what was attempted, what failed, and what was accomplished.

Advice from the Pros

- Ask customers how they heard of your business. This helps determine the accuracy and effectiveness of advertising.
- Reprint successful ads and use them as flyers and posters.
- Always encourage customers to comment on your business. You may be able to use the comments later to add credibility to your advertising.
- Make sure that your employees know about your advertising efforts, the specials you're offering, and the types of customers you're expecting before you go public. Uneducated, ill-prepared, and/or uninformed employees will *always* nullify the effects of marketing efforts.

Chapter 19
A Front-Line Marketing and Promotion Checklist

When your work speaks for itself, don't interrupt

Henry J. Kaiser

Whether a business is a gift shop selling odds and ends, a car washing service that sells cleaning products, or a restaurant that displays chocolates in a case near the front door, this chapter can be used to bring out the most in in-house sales. Look over the suggestions carefully. With a little imagination many of the proposals listed herein can either be used as is or be altered to achieve the ultimate business objective – a sale. Just bear in mind that there's no middle ground here. The answer to each question must be 100% 'yes'. Any other response is a 'no'.

In – House Marketing (marketing performed inside the business)

Point Of Sale Area

The point-of-sale area is where maximum customer flow occurs. To ensure a peaceful, informative and professional selling environment, evaluate whether the business meets the following criteria:

yes / no Adequate space to allow for efficient presentation of products on sale.
yes / no A set-up and service that minimizes delays and queues.
yes / no Clean, well lit display units allowing customers to examine products in a relaxed manner.
yes / no Careful product arrangement to avoid distractions during the point of sale.
yes / no Walls cleared of clutter and signs, which denotes that staff are too timid to confront customers (poor sign examples include: clean area after use, we don't take credit, etc...).
yes / no Careful placing of essential products so that customers pass by when and where they are most likely to purchase them.
yes / no Pleasing colors and background music in keeping with the image of the business.

In-Store Promotion

Promoting inside a business is crucial. When customers are physically inside a business they are right where the business wants them to be. Check the following to maximize eye-catching in-house promotions:

yes / no Special offers relating to specific product lines.
yes / no Personalities invited to attend functions that will attract customers to the business (there are plenty of well known people in their field who will come and give a seminar or promote something in exchange for the publicity and the price of a plane ticket).
yes / no Internal/external customer competitions offering attractive prizes or incentives to those who boost sales (for example, the person bringing in the most paying customers, or whichever customer buys the most of a certain product wins a prize).
yes / no Merchandise on display with the business's logo – such as key chains, coffee mugs, tee-shirts, bumper stickers, etc (which can also be used for prizes and give-aways).
yes / no Provision of adequate promotional literature - leaflets, brochures, signs, coupons (see the section below titled 'Unique Selling Points').

In-Store Advertising

Again, the place where potential customers are valued most is inside a business. Once they're there, use the business environment to its maximum by evaluating the following:

yes / no	Professional posters displaying product names and a message.
yes / no	Staff uniforms neat, clean, and always worn.
yes / no	Professional displays to promote products, deals, promotions, and services.
yes / no	A well-informed, well-trained staff that knows what it's doing as well as what's going on.
yes / no	Well-stocked staff work areas (for example, what message does a business send out if a pen or other simple tool can't be found when and where it's needed?).

Internal Public Relations

Indicate which of the following options has put into place:

yes / no	Introduction of a suggestion box where customers can anonymously deposit their remarks.
yes / no	Introduction of a house journal, news letter, or pamphlet
yes / no	The arrangement of social events for customers and their families.
yes / no	Introducing incentives to reward employee productivity, customer loyalty, etc…
yes / no	Offering special discounts or services to employees (if employees use your products they'll encourage others to use them too).
yes / no	Providing effective training opportunities for employees (including letting employees attend seminars, lectures, and personal-growth workshops).
yes / no	Letting employees participate in decision making processes (particularly in the setting up of programs they have created or have a keen interest in).

Out-of-House Marketing (marketing done outside the business)

Unique Selling Points

Capitalize on what sets your business apart from others by evaluating it in terms of the following:

yes / no	Do you have a trained and enthusiastic staff that helps sell your business outside of work hours?
yes / no	Do you have a champion or award winner on board? Is he/she mentioned in your adverts?
yes / no	Does your business offer competitive prices?
yes / no	Do you offer an accessible and convenient location (with ample parking)?
yes / no	Do you offer attractive peripheral services (i.e.: late or early openings, delivery, installation)
yes / no	Do you host special events ('open house' days, sales, parties, get togethers, etc.)?
yes / no	Do you provide adequate promotional literature in the form of leaflets, brochures, signs, coupons (it might be a good idea to have several different types – each targeting a specific clientele; for example, one for walk-ins, one for corporate memberships, one for seniors or students…)?
yes / no	Do you use testimonials from satisfied customers for advertising and promotion?

Community Relations

Check to see if the business participates in the following initiatives (remember to inform the media about them):

yes / no Donations to local charitable causes (along with a story to the media stating this).

yes / no Development of good relations with local media owners.

yes / no Introduction of products/services to the local needy community (for example a health club's facilities could be made available to a cardiac patient unit, a physiotherapy businesses, a school or college, a community center, and so on…).

yes / no Introduction of special events or special days where the community can be exposed to the business's operations.

yes / no Do you participate in local event sponsorship (with full advertising rights)?

yes / no Have you established favorable contacts with local council members and/or chamber of commerce members?

Direct Sales Campaigns

Evaluate the business's performance on the following sales techniques:

yes / no Selling directly to the customer (i.e.: direct mailings, personal visits, sales calls, etc…).

yes / no Target marketing select individuals with advertising paraphernalia (dropping off select-specific brochures at companies, public venues, sport shops, waiting/reception areas, the local tourist information centre, student unions, etc…).

yes / no Establishing social media accounts (Facebook, Twitter, Instagram, Pinterest, etc) to display the business and its special offers.

yes / no Target marketing groups (personal visits to local clubs, athletic teams, popular meeting places, local company functions, and so forth to let them know of your special group prices).

yes / no A booth at trade exhibits or fairs.

yes / no Press releases (100 or 200 words sent to the media regarding information your business considers newsworthy).

yes / no Invitations to the media (or other notables) to come look over, try, and mention your product/service.

Indirect Sales Campaigns

Does the business have (or do) the following:

yes / no Sponsorship/advertising space at local sports venues or with local team programs.

yes / no Media advertising (Note: With television, radio, and newspapers, first ascertain what demographic market they reach and if they match the target market of the business. The operators of these mediums do have this information.).

yes / no Trade and technical journal advertising.

yes / no Advertising in special interest magazines or coupon booklets to reach your target audience, (e.g.: tourist pamphlets, student/university publications, etc…).

yes / no Neon/lighted signs located outside and/or hanging over the sidewalk for all to see.

If a business can't answer 'yes' to the majority of these questions, it's selling itself short and something needs to be done about it.

Suggestions for Ensuring that Marketing Attempts Obtain Results

- *Don't make the task too complicated and don't go it alone.* The simpler the approach and the more people that are involved the better.

- *Have fun.* What you come up with will reflect the atmosphere and environment from whence it came.
- *Avoid the typical marketing mistake of falling in love with your own advertising.* The point of advertising is to attract customers, not to design something that appeals to the business. All marketing efforts should marry the benefits being sought by paying customers with what is being offered. Do you know why your current customers come to your business to begin with?
- *Don't count on cleverness to attract customers.* The most effective marketing campaigns don't come from dazzling advertisements and eye-catching slogans. Businesses that bring in the most customers are usually the ones that do the most work to *personally connect* with customers (see pages 120-125).
- *Don't rely on social media.* Companies spend billions of dollars a year to establish and maintain a social media presence, but a recent 2017 study of social media marketing by *Harvard University* discovered that social media doesn't work the way marketers think it does. Indeed, the study found that 'liking' a product or service on *Facebook* (the world's dominant social network) 'does not increase a customer's behavior or lead to increased purchasing, nor does it spur purchasing increases from friends'. The study concluded by affirming that a 'survey of 427 marketers in U.S. companies showed that 80% are unable to quantify the value of their social media efforts. Furthermore, in a study of *Fortune* 500 companies, '87% of (chief marketing officers) acknowledged that they can't document that social media creates new customers' (mostly because marketers are using it the wrong way). The solution? Social media efforts should be combined and amplified with advertising and other marketing promotions that are specifically designed to generate higher returns on social media investment (time being the primary investment). In other words, the key to using social media successfully is to create opportunities that personally connect with a business's most-loyal customers (see Chapter 22; specifically pages 121-125). If you still don't get it, look at it this way: social media is most effective when it's used as a two-way street that establishes a real-time feedback dialogue with customers; it is least effective when it's used as a cheap way to send out inert messages to large numbers of people. (John, Emrich, and Schwartz, 2017)
- *Learn from your results.* If a marketing campaign is a success - find out why. Don't walk away with the notion that similar success will be enjoyed again in the future.
- *If a marketing campaign isn't a success, find out why.* Sometimes only one ingredient is missing. As the saying goes, those who fail often never realize how close to success they came. Avoid the old chestnut, 'I tried that once and it didn't work.' If you do your research, know your customers, and everyone involved pulls in one direction – your marketing efforts *will* work.

Advice from the Pros

- Ask suppliers for advice as to how the merchandise they supply you with can best be sold. Much money, time, experience and effort is usually behind this advice so use it to your advantage.
- No matter how young (or small) a business is, if it acts and looks professional it will be perceived as being successful.
- Invest in your marketing schemes as you would any promising business venture.
- Try to learn something new everyday about your business and your customers by listening to employees and customers.
- Never stop developing ways and means that make your business different from its competition.
- Never miss an opportunity to ask a customer for a product, service, or improvement idea.
- Fully train all your employees and regularly check on their progress. Under-trained employees are guaranteed sales-killers. Having employees answer 'I don't know' to basic customer inquiries is a sure way to lose a sale.

- If you want employees to follow your rules and training methods they will have to be written down. Unwritten rules and guidelines cannot be enforced.
- Endeavor to set up your business in a way that – as much as possible - it sells itself.
- Good products do not sell themselves. They need promoting.

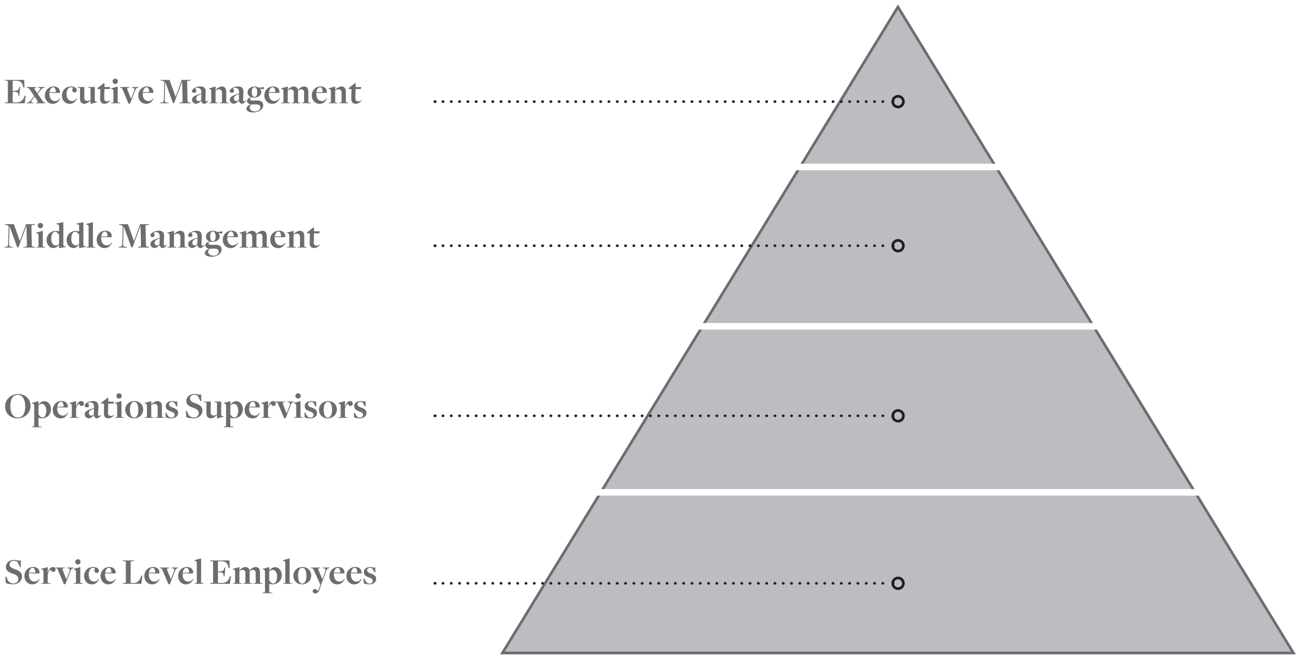
Chapter 20
Developing Customers and Employers

An ounce of prevention is worth a pound of cure.'.

Anonymous

If customers are the lifeblood of every business then employees are its brain and muscle. The money customers pay in exchange for goods and services is the reason why a business exists. Employees are the people who carry out the activities that make up a business and ultimately determine the direction the business goes. Yet before a business's employees can or will work together to serve customers, a sense of order and discipline has to be established. Traditionally this has usually including the formulation of a hierarchical pyramid which shows where everyone is in relation to the business (see figure 20-1):

Figure 20-1

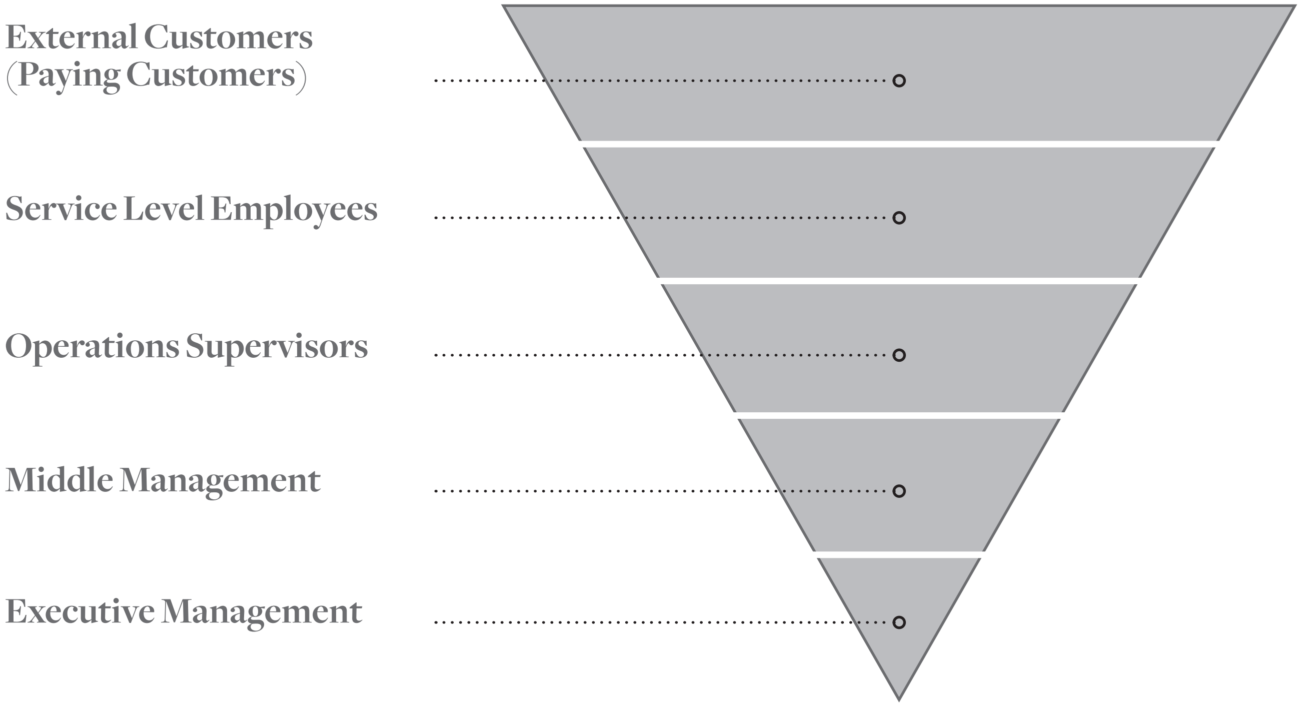


The problem with this illustration, however, is that there appears to be no room in it for paying customers. When asked where customers fit into a chart like this, most people assume that they're languishing somewhere at the bottom below service level employees (an all-too-typical scenario in most businesses).

What would happen if a different approach were taken? What if a business inverted its hierarchical pyramid so that its paying customers become the most important part of its hierarchical pyramid?

(see figure 20-2)

Figure 20-2



From this perspective, an upside-down, pyramid-shaped organizational chart displays the importance of often disregarded service-level employee and the customers they serve (see Chapter 24). Additionally, it demonstrates that those at the bottom of the chart should focus on providing for those above. In other words, every employee shares a common purpose – to serve and satisfy the top of the chart.

Evaluating Customers and Employees

The evaluation of customers and employees on a regular basis reveals the value that each is offering the business. With paying customers, evaluation means recording the amount of money customers spend, keeping track of the types (and volume) of products being bought, remembering likes and dislikes, and noting what is going on in their lives or businesses to better determine the products or services they'll need in the future. With employees, evaluation means keeping track of progress and achievements, mistakes, bad behavior, discovering who needs additional training, determining who can handle more responsibility, or sometimes, regrettably, who needs to be let go.

Establishing a Customer Database

A *customer database* is a tool that records the buying habits of regular paying customers. Gathering this information is crucial – as is making it accessible to employees. Working separately, employees may not be aware of the whole customer picture, but with a database they should be able to put one together. When answers to the questions in a database are unknown, perhaps a good solution is to simply ask the customer to supply them. This is best accomplished through attentive contact that flatters the customer by making him or her feel important. It needn't be (and shouldn't be) an interrogation.

Why is customer information important? Consider the wisdom of John Bond, former chairman of HSBC (one of the world's most successful banks). With no university education and no real work experience, Bond jumped onboard a ship and performed menial jobs to pay his way to Asia. Upon arriving, he worked his way into an entry-level position at HSBC and eventually climbed to the top position. 'What is the secret of your success?' an interviewer once asked him. 'Regardless of the positions I've held, I've always known my top 200 customers,' Bond replied. 'I know their names, I know their businesses and I know their likes and dislikes. I know what they've done in the past and I ask what they expect in the future – and with that information I serve them better.'

As with most good business practices, keeping track of customers by setting up a customer database is not complicated (software programs are available). Most are quite simple and record data such as:

1. Customer Specifics
- Name, Address, Age, Gender, Profession...
- Geographic location and/or their demographics
- Economic information (such as income level)
- Basic needs and requirements
2. Purchasing History
- Long term or short term
- Type and amount of product purchased
- Brand loyalty
- Reason for buying (price, convenience, a spur of the moment decision, etc.)
3. Future Prospects
- What are the customer's future plans?
- What might he/she/they need in the future?
- What type of future expenditures is the customer likely to make?
- How much can they spend? How much will they save by buying from us?
4. Other Pertinent Questions
- How did the customer hear about us?
- What does the customer need that we currently don't offer?
- How can our service be improved?
- Is the customer difficult? (explain)

Developing and Enhancing Employees

Few activities are more important in a business than the training of employees. Educating employees helps ensure that they perform their duties correctly. Time and again, during the interviews conducted for this book, successful entrepreneurs stated that the more time they spend training employees, the fewer problems their businesses have as a result (In fact, 87% said that employee training is either important or very important in the running of a successful business). Ironically, however, many of these same business owners complained that they never have enough time to train their employees - while lamenting in the same breath that much of their time is spent supervising, correcting, and admonishing poor performance.

Employee training is an unending process that requires time and investment. The reward, however (a well-trained staff that does not make mistakes and can think for itself), is well worth it. Following are the types of approaches that employee training can take:

- *Apprenticeships*: assigning an employee to serve as an assistant or understudy to a skilled worker for a set period of time.
- *Coaching*: having an experienced person watch, study, and advise employees before gradually setting them off on their own.

- *Job rotations*: a much praised method of training (or training enhancement) in which employees periodically switch jobs to learn how the organization works as a whole and to learn other tasks. The benefits of job rotation include shaking things up, the creation of new ideas, developing respect for others, eliminating boredom, and always having skilled workers on hand.
- *Off the job training*: sending an employee off-site to attend education sessions, seminars, or workshops. Employees usually view this as a reward.
- *Mentoring*: the act of transferring insight and experience from a seasoned worker to a junior worker when it is needed, or asked for, by the junior worker.
- *Modeling*: having an experienced person demonstrate to a newcomer how to do a task.

Never underestimate the importance of training. The more time and attention that is given to an employee as training, the better off your business will be.

Monitoring Employees (Job Evaluations)

Job evaluations let employees know if they're going in the right direction while providing insight when it comes time to determining if an employee needs additional training (or perhaps a reprimand). Evaluations should be performed regularly, written legibly, and stored in a safe place to reflect seriousness on the part of the business. Against the information collected, progress can be measured. Most experts suggest that evaluations should not be viewed as a negative practice, but rather as a means of two-way communication. When performed in this manner, evaluations are difficult to turn into reprimand sessions. They're also an excellent way to reward good performance when things are going well. Most evaluations take into consideration:

- Overall job performance,
- Work output and quality.
- Views from colleagues,
- Social skills (including the employee's attitude toward work and co-workers),
- Punctuality and attendance,
- …and the views or opinions of the person being evaluated.

Work evaluations should avoid:

- Judgment on one trait (good or bad),
- The ignoring of past performance by only judging recent work standards (this keeps the employee from 'pouring on the goods' right before evaluation time),
- Personal bias,
- Grading, and,
- Marking everyone as average.

Dealing with Consistently Poor Performance

Many of the entrepreneurs who contributed to this book agreed that 95% of the blame for poor employee performance usually lies squarely on a manager's shoulders. ('Who hired the employee, who didn't train him, or who didn't get rid of him when he turned out bad?' said one contributor). With this in mind, try finding answers to the following questions when faced with an employee who shows consistently poor performance:

- Does the employee have a reason for his/her poor performance?
- Has proper training been provided?
- Is the employee being subjected to bullying by colleagues?
- Have proper motivational tactics and/or incentives been administered?
- Is the employee suffering from outside (personal) pressures?

- Is the employee working in a suitable department, field or area?
- Is some form of punishment necessary? (Note: Termination is not a punishment. The process of firing an employee for poor performance is an act of finality after all else has failed.)

Nothing Recedes Like Success

It is ridiculous to expect customers and employees to remain loyal without giving them anything in return. Equally as important, customers and employees are unique human beings that cannot be treated like clones. Customers and employees require immediate, individualized attention the moment they enter a business. To maximize what is desired from both customers and employees, keep written records and use these records to *prevent* problems. Doing so will help eliminate the expensive, time-consuming practice of constantly working to replace dissatisfied customers and employees.

Advice from the Pros

- Although beggars can't be choosers, there are some customers you're better off without (e.g.: those whose demands cost more than what they give in return). Perform a background check before taking on a long-term customer.
- Check the reliability and reputation of paying customers before extending credit. Don't allow the rush of enthusiasm and goodwill that usually accompanies a big sale to cloud your judgment.
- New businesses have to grovel for customers. Never forget that.
- Don't focus solely on big name customers who have lots of money. While there is nothing wrong with aiming high, don't neglect smaller clients.
- The best employee candidates are usually the ones who hunger most for work – not the ones with the most education or experience.
- Showing commitment and integrity to employees pays off. How you treat your employees (and your customers) is often the standard as to how they will treat you.
- Never rely implicitly on one external customer. Circumstances beyond your control can lead to the bankruptcy of your business if that one customer is lost.
- Be careful with those you choose to trust. People (or businesses) you have known for years can steal, lie, overcharge, or otherwise engage in dishonest practices when you least expect it. Be alert.

PART III
BUSINESS & MANAGERIAL BASICS

Chapter 21
Management

If you want to test a man's character give him power.

Abraham Lincoln

I don't know what your destiny will be, but one thing I do know; the only ones amongst you who will be happy are those who have sought and found how to serve.

Albert Schweitzer (at a graduation ceremony)

At some point in every new business, the ethereal ideas and creative spirit behind entrepreneurship will collide with the down-to-earth realities and practical logistics of management. So perhaps the best way to present a rich and accurate concept of management is to look at what good managers do – or are *supposed* to do – in the course of a typical working day. To begin with, good managers constantly streamline their organizations toward making a sale. In other words, good managers keep their organizations on track by ensuring that *everything* that's being done is ethically geared towards providing what customers want. In this regard, a good manager is responsible for reducing ambiguity, keeping costs down, eliminating waste, and motivating others to do the same. Good managers take educated risks and exercise good judgment. These risks include trying new things, successfully adjusting to change, developing subordinates (good managers aren't afraid of letting other people shine - in fact they encourage it), and improving their own skills.

Since most managers are responsible for more work than one person can normally perform, a good manager also delegates and integrates his or her work (or the work of others) by acting as a clear channel of communication within the business that he or she serves. Good management is therefore about rising above the often monotonous grind of a working day and injecting motivation, creativity, discipline, and enthusiasm into areas in which they either don't exist or they're not wanted. Successful management entails doing difficult and time-consuming tasks a manager does not want to do in order to get the results he or she wants. And while all that's going on, the ups and downs of life have to be dealt with including fear, insecurity, births, deaths, romances, divorces, physical injuries, bad hair days, bad-manner days, personal failings, and attitude problems to name just a few. Again, I'm talking about good management. People who are good managers face problems rather than run from them, put in long productive hours, set a good example, and have an inherent knack to create something from nothing. Good managers work well with others (including those they don't like) and they can be counted on to be honest and upstanding. They concentrate on goals and results rather than showing everyone who's boss because the creed they live by is *integrity, responsibility,* and *maturity*. This means financial figures aren't manipulated and production numbers aren't fiddled. Of course that's not to say that good managers always score; they most certainly do not. But when good managers don't succeed the first time, they pick themselves up, brush themselves off, learn from what happened, and *then* score. Good managers create value; they don't make excuses or blame others, they produce results.

Sound like a tall orde at makes management so difficult to define – let alone do.

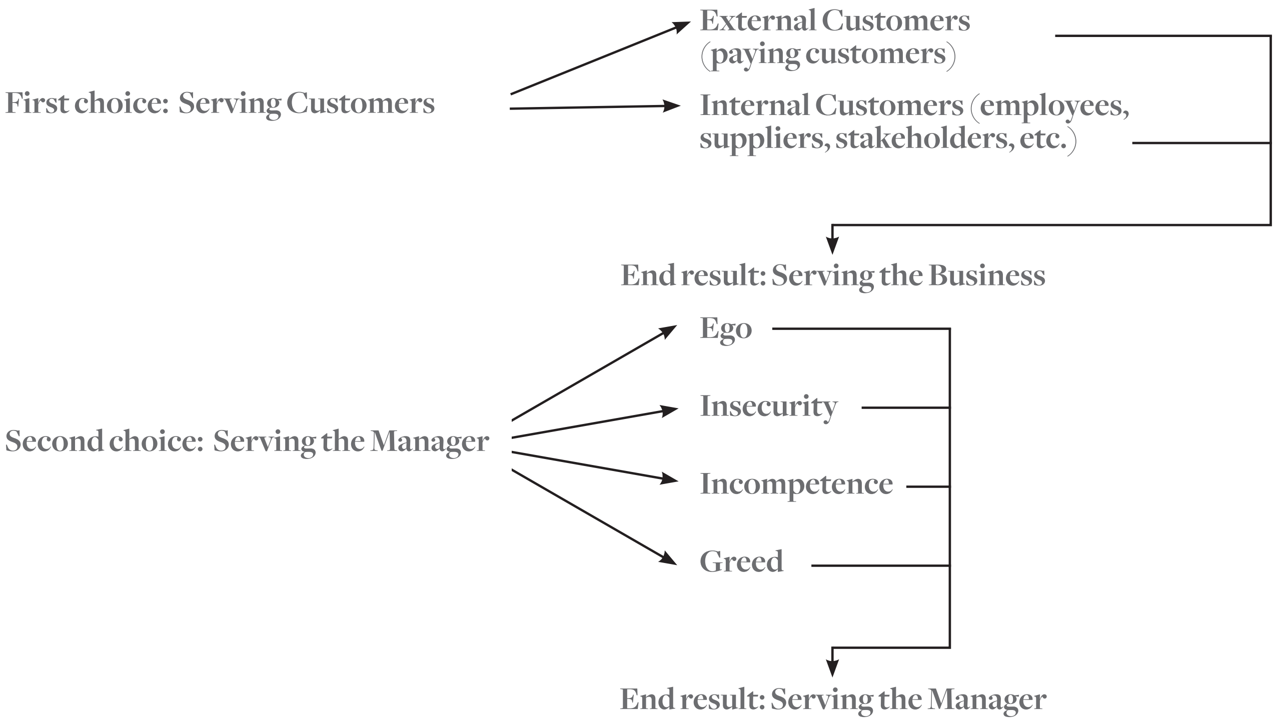
The Two Choices of Management

What will you do, as the manager of a business, when faced with work-related questions or problems? In most instances, by understanding that only one of two choices is available. This is not an exaggeration. There are no shades of grey here and there is no middle ground. The first choice is to serve your business's customers. The second choice is for the manager to serve *himself or herself*, which means allowing insecurity, incompetence, ego, or greed – or a combination thereof – to prevail.

Serving a business's customers involves finding out what they want (as well as how, when, and where they want it) and then moving heaven and earth to provide it. Serving customers also involves finding good people (employees, suppliers, contractors, and other stakeholders), educating (training) them, and giving them what they need so that they know the requirements of the business, the owner knows their requirements, and the two can serve each other. The end result, if all goes well, is that paying customers are served best and everyone prospers as a result. Any other act or behavior is simply self-defeating.

For example, if an employee or a paying customer approaches you with a good idea and you immediately say 'no', you're probably serving your ego (saying no is the quickest way to let everyone know that you're the boss). If you say 'no' because you're not sure how or if the idea will work, then insecurity is being served (a major part of any manager's job is to find out how new ideas can work). If you say 'no' because implementing the idea will involve additional work (as new ideas often do), you're serving your incompetence. And if you say 'no' because the idea will allow someone else to shine, you're serving greed (not to mention ego and insecurity as well).

Graphically, the two choices of management look like this.


First choice: Serving Customers
External Customers (paying customers)
Internal Customers (employees, suppliers, stakeholders, etc.)
End result: Serving the Business
Second choice: Serving the Manager
Ego
Insecurity
Incompetence
Greed
End result: Serving the Manager

The Two Choices of Management: A Case Study

Several years ago, a woman who had been named as the director of a large international charity for underprivileged children invited me to a dinner party at her home. Seated at the table was a long-time friend of hers, a man from a prominent family who owned a successful marketing firm. During the meal he mentioned that he loved to make donations to worthy causes. 'Whatever you need I'll be happy to provide it for free,' he said. 'I love doing pro bono work for charities.'

'No thank you,' the hostess replied, 'that's not the way we do things where I work.'

A moment of stunned silence followed. Here was a charity being offered tens of thousands of dollars worth of expertise (possibly more), with no strings attached, yet its new director had turned the offer down flat. Obviously, she was not serving her customers (starving children) by turning down such a contribution. Make no mistake, she is a lovely person, highly intelligent, university educated, a joy to be around, and honest to a fault. And before I continue, let it be known that the donation she was offered was both genuine and sincere. So why did she let her customers down and who is she serving by doing so?

Knowing this person fairly well, it's safe to say that she's not greedy. If she had said 'yes' in order to conduct an act of embezzlement or to otherwise steal the limelight from someone, than she could be accused of greed, but that is not the case here.

Was her ego responsible? Perhaps. Too many managers seem to believe that turning down new ideas immediately shows that they're the boss. In other words, saying 'no' is a quick way to feed a hungry ego.

Is she incompetent? Obviously, she didn't know how to handle the donation (perhaps because she had never been offered one like it before), which is a fair enough mistake for any new manager to make. Unfortunately, since she didn't bother to find out how the donation could be put to use *before* making her decision, her action typifies incompetence. A manager's job is to learn how to do old things in new ways as well as to explore new ways to serve customers better – not to maintain the status quo.

Is she insecure? Absolutely. In fact, she admitted during dinner that she was having difficulty learning her new responsibilities. Insecure managers often say no to untried suggestions because they're unsure of the outcome if they say yes. They therefore play it safe. Saying no also has another benefit. It prevents a manager from having to do more work, which new ideas and suggestions almost always initiate.

The bottom line is that our hostess was serving a number of her inner needs – none of which involved her customer base.

The Biggest Obstacle of All: Ego

In his book, *How to Succeed in Business by Breaking All the Rules*, author Dan Kennedy relays a true story about managers and their egos and how the latter can end up destroying a perfectly good business. As Kennedy describes it, a few years ago a *Fortune 500* corporation bought a small, highly profitable company and hired a consultant to investigate how the company could make even more money. The consultant dutifully finished his study and reported back to the corporation, telling its administrators how disorganized, inefficient, and undisciplined he thought this highly successful small company was. In particular, he described how the company's top salesman showed up some days at seven o'clock in the morning and other days at ten o'clock. This same man read the racing forum and called his bookie during office hours. He took a coffee break after every call, spent incredible amounts of time wandering around joking with everyone, and even took naps. What the consultant did not mention, of course, was that this employee was the highest producer in the business. He rarely lost a sale and his monthly sales average beat that of every other employee by four to one. Rather than investigate further, the *Fortune 500* bigwigs dutifully dispatched one of their top managers, a former military officer, to whip the small company into shape by laying down the law, giving everyone strict new schedules to adhere to, and so on. As a result, the top salesperson left. Ninety days later, sales dropped by over 33%. Shortly thereafter, the corporation sold its new acquisition for less than half of its original cost. The moral of the story? By focusing on exerting its will (i.e.: serving its ego) rather than producing results (i.e.: serving customers) everyone lost.

Common Management Styles

For many managers, power is mostly wielded through trial and error. The style that worked well enough in the past is then dragged out and used again. And again. The number of management styles that exist are probably too numerous to list, however, acclaimed management researcher Charles Handy has classified six of the most common ones as follows:

1. *Force* is the crudest method of influencing others. It derives from pure authority and ranges from outright threats to bullying and violence.
2. *Rules and Procedures*. Setting down concrete rules and guidelines is another time-honored way to control others and is often the favored method of bureaucracies.
3. *Exchange*. Bargaining, negotiating, cajoling, and bribery fall under this category. Promotions, pay increases (bonuses), rewards, and recognition are more subtle examples.
4. *Persuasion* is usually the first method of choice used by managers. In practice, however, it's usually contaminated by one of the other methods mentioned here.
5. *Ecology* is the use of environmental surroundings to exercise influence. This includes wielding power in a crisis. For example, three common ecological moments that can be capitalized upon by most managers include: 1) when negotiating a contract, 2) during the first six months of employment, and, 3) during any moment of crisis.
6. *Magnetism* is sometimes witnessed in its abuse stages by sales people, faith healers, and religious fundamentalists. Personal charisma and cultivating followers are key.

So Which Style is Best… and When Should It Be Used?

One of the biggest dilemmas managers face is when to use these styles (or a variant thereof) to produce results. Unfortunately, one size does not fit all. Successful solutions are relative to the people involved and the situation encountered. What works for one manager may or may not work for another. Equally, what works one day may not work the next. For example:

- Using *force or fear* may achieve immediate results, but the results could be short-lived and lead to high employee turnover.
- *Rules and procedures* can effectively control behavior, but often drain a workplace of creativity, spontaneity, and morale.
- The *exchange method* can prove to be a good motivator, but what happens when everyone expects some type of reward in exchange for doing a task? The result can be expensive, time consuming, and/or produce a lack of respect for management.
- With excessive use of the *ecology method*, managers might be seen as opportunistic or conniving.
- As for *magnetism*, well, as the expression says, 'you can fool some of the people some of the time …but not all of the people all of the time.'

Management is about Doing What is Best for the Business

Management theories tend to ebb and flow like tides (indeed, dozens have been documented over the past 50 years), but one of the best, and one with which numerous business owners interviewed for this book have personally used to great effect, is known by the acronym **MBWA** (**M**anagement **B**y **W**alking **A**round). The idea behind MBWA is simple: to reduce the distance between management and employees and strengthen the relationship (and understanding) between the two. Just as the name suggests, MBWA demands that managers get out of their 'bubble' and walk around the shop floor. As author Richard Pascal explains, the point is not to interfere with employees, but get drawn into reality (or, as he puts it, *get grounded*). Too often management lives and operates within its own perceptions of what is right or wrong, rather than in what is real. The result manifests itself into various forms of misunderstanding, miscommunication, anger, and resentment. However, when contact between a manager and an employee is void of fear and apprehension, communication is strengthened. The result is a clearer understanding of what best motivates paying customers and employees. MBWA also has the ability to reduce managerial arrogance and allow managers to see what's going on in their business without having it filtered by someone else. And if what is seen is far enough out of line with what was previously believed, then a manager is forced to update his or her thinking. That's when progress is made. MBWA is not designed as a means of constantly looking over an employee's shoulders or becoming 'the man who came to dinner'. The idea is to facilitate cohesiveness, communication, cooperation, and improvement.

Once Last Time: Management is About Service

Good managers produce results by concentrating on two over-riding factors: 1) providing for the needs and wants of customers, and, 2) getting the most from employees (see Chapter 30). Management is not about showing everyone who is boss. It's not about shouting. It's not about domination. It's not about maintaining the status quo or covering up (or ignoring) wasteful habits. Managers exist to ethically serve the needs of their customers and to streamline their business toward making a sale. Period.

Advice from the Pros

- Transforming from the role of an entrepreneur to that of a business manager involves going from openness and creativity to setting perimeters and establishing control. Make sure the two functions complement one another rather than cancel each other out.
- Every business is an accumulation of the decisions it makes. Allow paying customers (the ones who ultimately pay your salary and bills) to be the reason for your existence by catering to their needs.
- If your business starts to grow beyond your expectations, consider hiring an experienced manager. This does not mean handing over your authority to someone else. It means hiring experience.
- Don't be a one-size-fits-all manager. Different situations require different managerial approaches.
- Admit mistakes early. Facing errors, apologizing for them, and rectifying them, does not make a person look foolish or small. It makes him or her look like a very good manager.
- If you serve your customers well your customers will serve you.

How Small Business Owners/Managers Spend Their Time

Over an average 8-hour day, small company CEOs perform, on average, 35 activities.

- **Of these activities, the mean duration was 13 minutes.**
- **72% of the day is spent in verbal communication (25% in scheduled meetings; 25% in unscheduled meetings; 3% phone (internal;) 10% phone (external;) and 9% in tours).**
- **28% is spent performing non-verbal work (at desk).**
- **Half of each day is spent in meetings. Scheduled meetings (on average two per day) are significantly longer (55 min on average) than unscheduled meetings, on average 22 per day (11 minutes duration on average).**
- **Brevity of contact is characteristic of telephone calls (6 minutes on average for all phone calls).**
- **Telephone calls and unsheduled meetings together accounted for 82% of all CEO contacts.**
- **The majority of time (about two-thirds or 67%) is spent in contact with subordinates.**
- **The remaining time is spent in contact with customers (11%), suppliers (11%), Independent (8%) and peers (3%)**
- **Communication occurred primarily in the CEOs office (84% of the time) or a subordinate's office (9%), or somewhere in the company (5%), or outside the organisation (2%).**
- **CEOs of small growth-orientated businesses perform, on average, more activities per day than CEOs of larger organisations (although the mean duration of activitiess - in minutes - generally longer for CEOs in larger organisations).**

From: *The Nature of Managerial Work in Small Growth-Orientated Businesses / O'Gorman & Murray & Bourke*

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Chapter 22
Understanding the Importance of Customers

Music is nothing if the audience is deaf.

Walter Lippman

In Florida, a prospective customer once visited a small sports center where a friend of mine worked. 'I've just moved to the area,' the customer explained, 'and I'm searching for a place to play racquetball. If I like what I see, I'll be interested in purchasing a corporate membership for my employees.'

My friend was delighted at the prospect. He walked the customer over to the racquetball courts and explained that they had just been renovated. Then he held open the door as the customer stepped inside and began inspecting the new flooring and walls.

'Who's that man?' the club manager demanded as she was making her rounds.

'He's new in town,' my friend replied, quickly shutting the door so his prospect wouldn't hear what was being said. 'He wants to look over our courts before he buys a corporate membership.

The manager angrily flexed her jaws. 'Didn't I say, just last week, that *no one* is allowed on our courts unless they pay an hourly fee?' Before my friend could stop her, the manager stormed onto the court and started shouting at the customer for not making a reservation. She then demanded that he pay a fee. My friend was so ashamed that he retreated to the parking lot to avoid hearing the rest of her tirade. Unfortunately, just when he thought the coast was clear, he ran into the prospective customer who was fleeing from the building. 'WHO THE HELL WAS THAT WOMAN?' the customer shouted.

She's the manager,' my friend meekly replied.

'Well, tell your manager that she can kiss my money goodbye,' he said.

Same Theme, Different Story

Not long ago, a boat manufacturing company in the northeast of Poland was in the final stages of developing its latest model. Yet try as they might, the engineers could not figure out how to install the fuel line without impeding the flow of petrol from the inboard tank to the motor when the motor was turned to steer the boat. One afternoon, as the company's engineers gathered around the boat to discuss the situation again, an old janitor shuffled past pushing his broom.

'Hey Charlie,' one of the engineers loudly said (in jest), 'do *you* have any ideas as to how we can solve this problem?'

The old man approached the boat and pushed back his cap. For several seconds he gazed quietly at the engine. 'Get rid of the internal fuel tank,' he replied.

The engineers broke into laughter. 'No, really,' the old janitor said, 'get rid of that enormous inboard tank and replace it with two big red all-purpose plastic containers. They're available in every hardware store and they'll fit easily into each corner of the boat. That way, there will be more space for fishing gear and a fuel line can run directly to the engine without being crimped when the motor is turned.' He leaned in closer. 'Of course the greatest benefit of having replaceable fuel tanks is that the owner can have them filled at any service station, which eliminates having to pay the exorbitant prices most marinas charge.' He nodded confidently and ambled off, leaving the engineers to stare at each other in stunned silence. Within days the boat was refurbished exactly the way the janitor had suggested. Six months after that it became the company's fastest selling product.

'I have to ask,' one of the engineers said to the janitor sometime later, 'how did you know what to do?'

'Easy,' the janitor answered. 'I'm a boat owner.'

'Well, I hope you'll share more of your ideas with us in the future,' the engineer replied.

The janitor smiled wryly. 'After you laughed at me and used my insight without a word of thanks? I wouldn't give you another idea if my life depended on it.'

Getting Back to Basics

Customers are the most important part of every business – and although that statement may sound like a no-brainer, in too many businesses it's not the case. So what exactly is a customer? According to successful business operators, a customer *is everyone that an organization serves*. Look carefully at this definition because it includes everyone involved in the running of a business. Think of it this way: servicing a customer is a two-way transaction. Every customer wants something from the business that he or she frequents (a product or service) and every business wants something from that customer in return (money). Using this give-and-take scenario, the word 'customer' can therefore be classified into two categories:

- *External Customers*: the people that exchange money for a product or service

- and -

- *Internal Customers*: the individuals that are employed by, that use, or who rely on the work of others within an organization and expect money and respect in return (including employees, suppliers, contractors, shareholders, the community where the business is located, and other stakeholders).

Business 101

Lesson #1: The reason why *external customers* are important is because the money they exchange for goods and services pays for everything in the business (bills, rent, salaries, insurance, taxes, pensions, medical plans, equipment, and so on).

Lesson #2: The reason why *internal customers* are important is because without them business cannot take place. Just as important, how *internal* customers are treated has a direct bearing on the way *external* customers are treat*ed*. The responsibility of every person in every business is therefore to *serve* everyone else.

Lip Service versus Customer Service

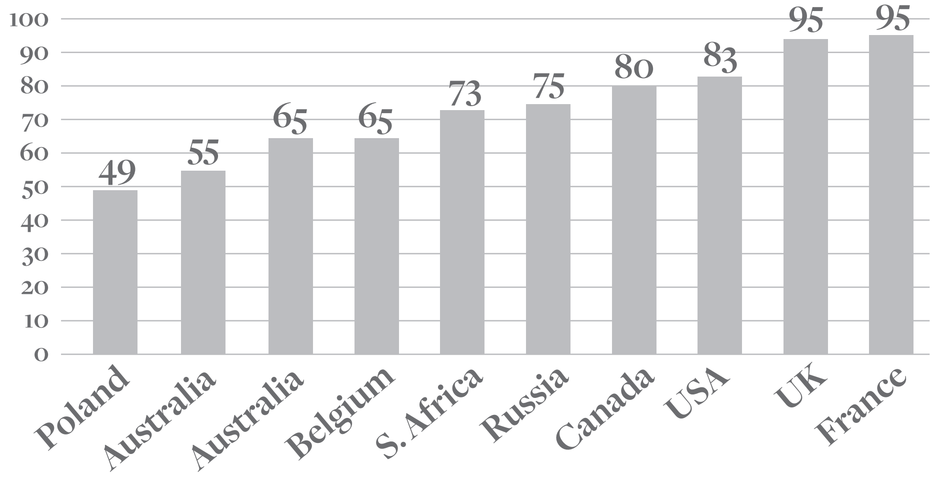
External and internal customers are essential to every business yet the irony is that it doesn't take fancy schemes or expenses to win them over. Usually what customers crave most is the human element – acknowledgement, respect, a smile, a listening ear, politeness, and honesty. Gimmicks, slogans, or the latest trendy business theory rarely amount to much when attracting or retaining customers.

Think of your own experiences as either an internal or external customer. How many times have you been subjected to rudeness, glued-on grins, unhappy repetitive responses, lies, or a general uncaring or patronizing manner? How many unanswered emails have you sent to businesses over the years? Indeed, what is it that causes so many otherwise intelligent people to lose sight of the fact that to make money and survive a business must focus on the needs, wants, and desires of its customers? Perhaps this rather astonishing oversight can be attributed to *sensory adaptation*. Sensory adaptation is the human body's inclination to eventually ignore the stimulus of clothes, smells, eyeglasses, wristwatches, contact lenses and almost anything else we need, get used to and forget is there - until it's gone.

How Important are Personalized Customer Relationships?

Successful entrepreneurs in ten of the 14 countries studied for this book were asked to estimate the number of external customers that they know on a first name basis. The answers (see FIGURE 22-1) were as follows:

Figure 22-1



Percentage of customers the business owner knows on a first name business.

What these figures show is that on average, approximately 68% of the *successful* entrepreneurs studied know their customers on a first name basis. It would therefore appear that establishing strong and personalized relationships with customers is a practice worth pursuing. 'It's very easy to start a business,' says the owner of *Adams Imperial Painting* in Sydney, Australia, 'but very difficult to find customers. So once you find them you'll want to keep them and the only way to do that is to get to know them.' (see Chapter 20)

Elementary Customer Mathematics (or Penny Wise and Pound Foolish)

It doesn't take a rocket scientist to figure out that if customers are not happy with the products and service they receive they'll go elsewhere. In addition, cultivating, delighting, and retaining customers is as important as it is never-ending because whether they're internal or external, customers usually have the option of going to another business that promises to treat them better. Consider the following long-standing statistics:

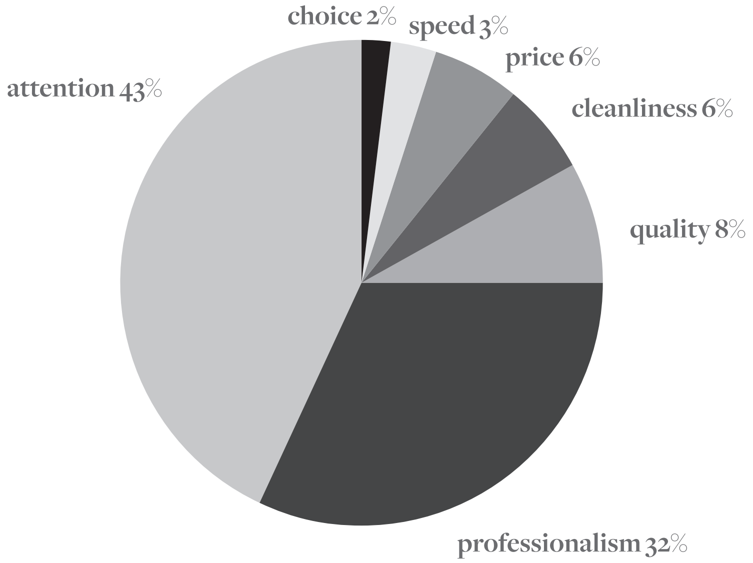
- A business can lose 20% (or more) of its external customers if its *products* are of poor quality, yet 66% (or more) will be lost if the *service* is perceived as being bad.
- It costs anywhere from five to ten times more to attract new customers than it does to retain old ones.
- The average company loses half its paying customers every four years.
- It costs money – lots of money - to continuously find, hire, and train employees.

What is Good Customer Service?

Profitable customer service begins with good ethics and includes common etiquette, showing respect, always telling the truth, sincere attempts at quality, and *giving immediate attention*. In other words, good service starts before the customer arrives at the business and continues long afterwards. No customer should be abandoned, or be made to feel abandoned, during or after they make contact with a business. By most accounts, this concept needs to be memorized and practiced it until it becomes second nature. Simply put, everyone in a business is responsible for creating a positive image. *No one is too busy to help*.

What Do Customers Want?

To answer this question, all the business practitioners studied for this book were asked what they appreciated most in the places where they shopped and did *their* business. The replies were as follows:



The percentages above speak for themselves, however, if a bit more clarification is needed, read on....

Three Examples of Good Customer Service

1. Several years ago the *Cemex* cement company (in Mexico) sent a team of managers into one of the poorest areas of the country to conduct a six-month study of poor people. Despite their poverty, people with limited incomes accounted for 40% of Cemex's cement sales so the purpose of the study was to determine what these folks wanted most from Cemex and to discover how this information could be used to increase sales. After living amongst this virtually unknown customer base and taking the time to learn the needs of the people that comprised it, Cemex discovered how poor people used cement, how their purchases could best be paid for, and a host of other valuable facts. Sales subsequently grew 250% every year afterwards (Hart, 2005). The moral of the story? Pay attention to your customers, treat them well, do what they want (including how they want it and when they want it) and they will repay you in kind.
2. In the 1990's a company in Argentina decided that it needed a software package to help run its factories. Two businesses were selected to bid for the project. The first was a major software designer; the second was a small software firm. The major player immediately flew in a crack team of polished professionals that astounded its audience with a first-rate slide show. Through sound effects and brilliant graphics they showed what a world-class software company can do with a presentation. Unbeknownst to them, however, the smaller firm had sent in a half dozen of its best employees three weeks earlier. And for three weeks these folks had sat down and worked with the managers of each of the Argentinean company's factories to learn what they needed in a software package. The result? The smaller company won the contract – even though it charged more for its product. Apparently, personal attention pays off.
3. Florida has over 500 airports. Most are small and host a *Fixed Base Operator* (FBO), which is a business that provides aeronautical services for small planes such as fueling, hangaring, aircraft parking, aircraft rental, maintenance, and similar services. About 75% of FBO revenues come from fuel sales, which means that prices have to be kept low to remain competitive. Indeed, competition is so fierce that because of a similarity in fuel prices, some FBO's are chosen by pilots simply because of the quality of coffee and the cookies they serve. 'Making an overall customer impression is the only

> way to survive in this business today,' says Domenick Eanniello, general manager of *Million Air Tallahassee*, 'so we have to see ourselves as more of concierge business than a fuel caterer. We now book hotel rooms for customers, secure rental cars, and recommend restaurants. We'll do anything.' Some FBO's take orders for pizza over the radio and even let customers borrow their company vehicle for quick journeys into town. In fact, the more laid-back and friendly an FBO is, the higher its standing in the flying community (DeHart, 2017).

The Ten Commandments of Business Success

One of the more poignant lists ever developed for understanding the importance of customers has had its authorship attributed to Mahatma Gandhi and repeated by Graham Brooks, Managing Director of *Dowman Car and Trucks* in Stockport, England. Regardless of which man developed these principles they're difficult to argue with. Think of each in relation to internal and external customers:

1. Customers are the most important people in our business.
2. Customers are not dependent on us – we are dependent on them.
3. Customers are not to argue or match wits with.
4. Customers brings us their needs – it is our job to fill those needs.
5. Customers are not an interruption of work – they are the purpose of it.
6. Customers do us a favor when they call – we do not do them a favor by serving them.
7. Customers are part of our business – they are not outsiders.
8. Customers deserve the most courteous and attentive treatment we can give them.
9. Customers are the individuals who make it possible to pay our wages.
10. Customers are the lifeblood of this and every other business.

The Customer Paradox (or Customer Wants versus Customer Needs)

Are customers always right? Of course not. Sometimes a business has to consider what customers *need* rather than what they *want* to ensure long-term profitability. For example, American automobile manufacturers in the 1990's mass-produced huge, gas-guzzling suburban utility vehicles in response to customer wants. Unfortunately, by selling a product based on little more than a fad, they completely ignored the inevitable (and easily foreseeable) long-term *need* for fuel-efficient automobiles. The result was that entire fleets of unwanted, gas-guzzling behemoths ended up sitting in dealerships without being sold when fuel prices skyrocketed - a scenario virtually identical to one in the 1970's when, due to escalating oil prices and an unwillingness to produce fuel-efficient cars, the same automobile manufacturers faced similar problems. The same situation occurred again in 2008. The message here is that in near-sighted operations that don't consider the whole customer picture, short-term gains often lead to long-term pain.

Dealing with Difficult Customers

Generally speaking, difficult customers are people whose cost of service outweighs what they generate in terms of revenue. Every business has them - and whether internal or external, there are several ways to treat these folks before taking the irrevocable step of showing them the door. When pride, the need to maintain one's dignity, or anger threaten to contaminate a customer relationship, the following suggestions may help diffuse the situation:

1. *Listen to the customer.* Don't just let the customer talk, *listen*. The customer may have a valid point and is just not presenting it appropriately. Don't interrupt and don't trivialize the problem; the complaint or insight being expressed just might save the business a lot of time and money. Listen and let the customer run out of steam.
2. *Remain calm.* Speak softly and directly. Lowering your voice almost always results in the listener doing the same. Don't exacerbate the situation by becoming excited, matching wits, or trying to

get the upper hand. Control the situation by controlling your emotions. It's tough for difficult customers to play their game if the opposition refuses to play.

3. *Don't take any remarks or behavior personally.* Leave personal traits out of the situation. If you maintain your professionalism, you will not lose your dignity – no matter how much the other person is carrying on.
4. *Attempt to solve the problem.* Don't pass the buck by sending the customer on a wild goose chase. The goal is to solve the problem quickly and directly. Remember that the customer may not know your organization's setup and may be frustrated because it's not obvious where to go for help.
5. *Apologize for any inconvenience and thank the customer.* Acknowledgement is a powerful tool for disarming aggression.
6. *Remember that disgruntled customers tell up to five times more people about a bad product or business compared to the number of people they tell about good products or services.* So do your best to placate irate customers.

Thinking in the Long Term

In his book *The Four Legs of the Table*, Raymond Ackerman, chairman and developer of the highly successful South African *Pick n' Pay* grocery store chain, claims that all visitors to his business, including suppliers and sales representatives, are treated with personal attention and courtesy. Each is offered a cup of tea or something to eat if it's near a mealtime because every visitor is considered a potential customer with family and friends who are also potential customers. Ackerman says that because of this policy he has lost track of the number of times he's been approached by people who, decades earlier (in some cases as many as 30 years), were treated with such consideration that they became, and remained, loyal customers.

The Final Word

Nothing is more crucial to a business than customers. The role of every business is to serve customers what they want, where they want it, and the way they want it – while remaining ever vigilant as to what they might need in the future. Put another way, fancy theories and marketing trends are no match for good service and an attentive eye and ear when it comes to running a business. Entrepreneurs must never lose sight of the fact that every decision they make and every action they take must be customer oriented. Anything else is a complete and utter waste of time and resources. Period.

Advice from the Pros

- To build a better business, visualize everything through the eyes of your customers (both internal and external) to identify areas that need improvement.
- If you don't now what your customers want, ask them. Don't second guess.
- Treat every customer as if he or she is your best patron. What you'll get in return is immeasurable.
- Rather than banging your head against a wall trying to figure out what customers want, allow their requests to guide your business by regularly asking for their wants and needs in a friendly manner.
- Always be on the lookout for new customers. If your business relies too much on one patron, particularly if that patron is another business, you may lose everything if another supplier is chosen by them or the economic environment changes and your biggest customer decides that your service or product is no longer a necessity.
- Find new customers and keep the old for one is silver and the other gold.
- Like any relationship, customer relationships must be earned before results can be obtained.

Chapter 23
The Basic Levels of Every Product

> *The majority of (people) meet with failure because of their lack of persistence in creating new plans to take the place of those that fail.'*
>
> Napoleon Hill

Ever notice that in its advertising, *McDonalds* rarely, if ever, mentions the taste of the food its restaurants serve? Or that perfume ads rarely, if ever, explain what the perfume smells like? This is normal practice in the advertising world. Most businesses don't mention the details that make up the products they sell. Instead, they focus on the *benefits* their products provide because a benefit is what customers are usually seeking.

How Well Do You Know Your Product?

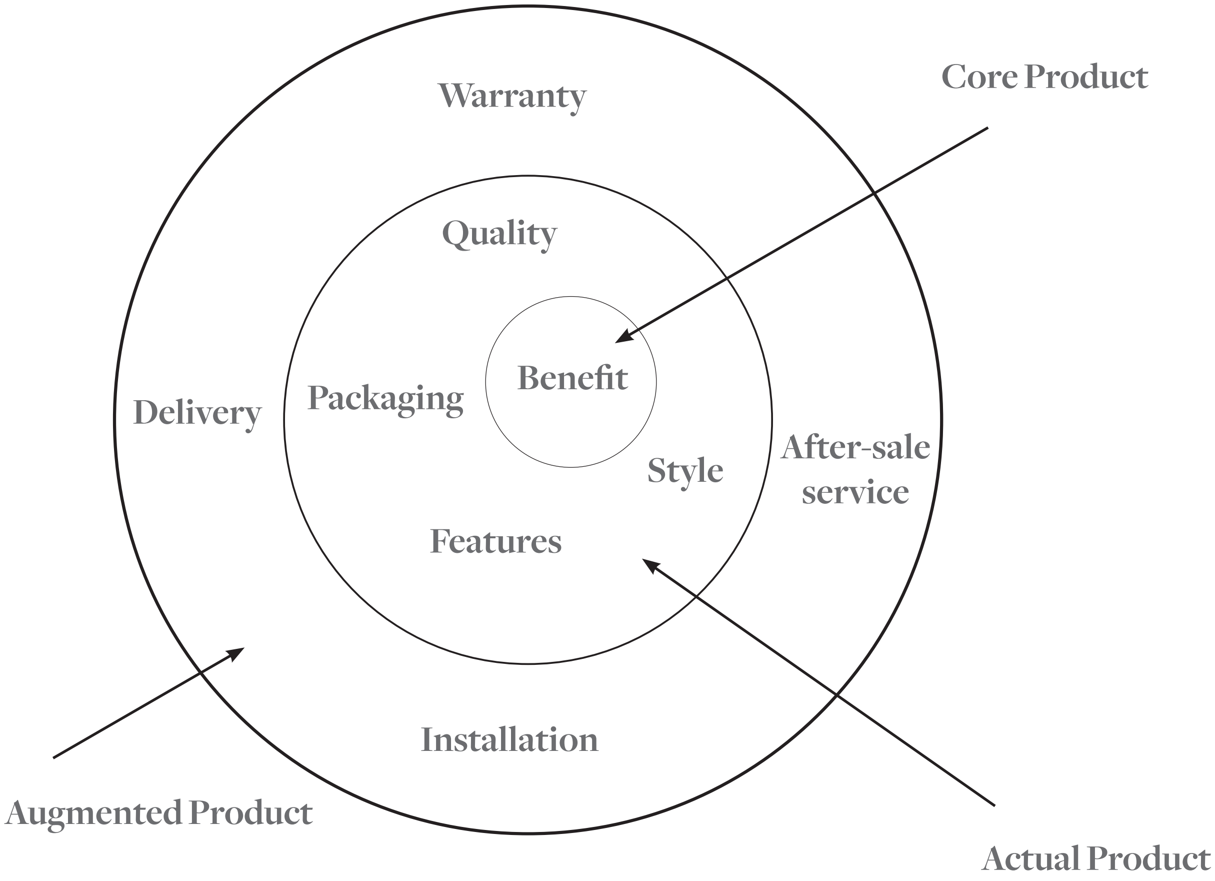
Every product or service has three distinct levels:

1. A *Core Product*. The actual *benefit* the product provides - or is seen to provide - its paying customers.
2. The *Actual Product*. The unique or discerning attributes that separate one product from another in terms of quality, features, design, packaging, and so on.
3. The *Augmented Product*. Additional services and benefits built around the core product such as installation, a warranty, delivery, credit, guarantees, or after-sales service.

For the most part, successful marketing is reliant upon finding out which one of these three product levels is the most appealing to customers and then adjusting policies and procedures accordingly to target specific customer groups (see FIGURE 23-1). The *core product* of McDonalds, for example, could be convenience (which is why so many McDonalds have great locations). Or it could be uniformity, hygiene, fast service, or some other benefit a customer seeks when choosing to eat at a McDonalds restaurant. The *actual product* is the burgers, fries, and foodstuff. The *augmented product* is the advertised extra used to make a sale - often toys and give-aways that entice customers (or their children) into the restaurant. Similarly, the core product of a cosmetics company (as stated by some cosmetic company administrators) could be hope, sex appeal, sophistication, beauty, image, or whatever else it is that customers want in a cosmetic - which is then emphasized in a marketing campaign. The actual product, which is wrapped around the core product, is the item itself (lipstick, rouge, make-up, eyeliner...). Augmentations can involve money-back guarantees, free samples, two-for one-deals, or any enticement that creates perceived extra value.

Figure 23-1

The Three Levels of a Product



Which Product Level Attracts the Most Customers?

Years ago, in Nottingham, England, I watched a city centre gym owner as he struggled through the midst of a dilemma. As a small business manager with limited funds he wanted to make certain that the £1,800 advertisement he was placing in the local *Yellow Pages* directory would attract customers. Eventually he narrowed his decision down to four different styles before asking for my input. 'Which one do you think is best?' he said.

'It doesn't matter what I think,' I replied. 'Do you know why your customers choose this gym over the other ones in town?'

He shook his head and shrugged. 'Convenience?' he suggested.

'Why don't you ask them?' I said. Before he could answer, I spread the four ads on the top of the reception desk and asked a woman signing in to select the one she thought was best. I then asked what attracted her to the gym. During the following 30 minutes, I did the same with every person that either entered or left the business. Far from being taken aback, everyone absolutely relished being asked for his or her opinion. Soon a queue of people formed, each eager to offer his or her input. In the end, over 90% of my friend's customers chose one ad as the most eye-catching. More importantly, all of them mentioned price as their main reason for joining. Incredibly, my friend hadn't mentioned the words 'price' or 'value' in any of the ads he was considering, so he took the advertisement his customers had selected back to the *Yellow Pages* and had 'best prices in town' placed at the top of it in bold print. Since he now knows his core product is price or value, he knows that this is what he has to keep providing. Eventually this may change (customer wants usually do), but for the moment he doesn't have to bang his head against the wall wondering how to attract customers.

What to Do when a Major Competitor Moves to Town

Being aware of a business's core product, actual product, and augmented product can be a formidable weapon when used against a major competitor. But what can the owner of a corner market do to beat a *Wal-Mart* superstore opening just down the road? Or how can a small-time hamburger stand take on a giant like *McDonalds*? Similarly, what can a family-run photocopying center do when a big *Office Depot* is set to open across the street? For the most part, smaller competitors can stay in the game by knowing exactly what *benefits* their customers need or want and augmenting those needs with outstanding service. More often than not, big rivals, with their minimum-wage employees, usually can't provide superior customer service. For example, my friend in the Nottingham gym story above has been in business for years. During this time six other fitness facilities have come and gone, yet his business keeps chugging along. The reason it does becomes clear the moment a customer walks in the door and someone on his staff greets that person as if he or she were a long lost friend. Simply put, customers are made to feel as if they belong. What's more, this type of focused, personalized service doesn't cost anything.

In another example, a colleague relayed how a local photocopying center in his town managed to stay in business even though an *Office Depot* opened across the street. Desperate to stay in the game, the small business operator decided to provide many new services that his rival couldn't – including free pick up and delivery - while eliminating the retail side of his business because he couldn't compete against low prices.

Yet another tale is told about a small retail shop that went head to head against a *Wal-Mart* superstore. Rather than stick its tail between his legs and admit defeat, the entrepreneurial shop owner studied the buying habits if his customers and began casing his bigger rival to discover, (1) the specific products it didn't sell and, (2) the products it didn't sell well. The result was that he became a specialist in hardware and cleaning supplies - something his competitor does not want to do (and which it's not qualified to do).

Continuing on the same theme, consider a host of small-time hamburger stands in Central Europe that compete against the fast food giants by providing what the giants can't – *very* low prices. With hardly any overheads (these businesses are usually run by one employee in a kiosk), they attract enough customers to pull a small profit.

The tactics of a number of small bookshops in England that battle everyday to compete against the low prices and three-for-two discounts offered by the country's major supermarkets provide an additional example about the importance of knowledgeable customer service. Slashing prices is suicide for small bookshop owners because they can't buy or sell in bulk. So to stay solvent many either widen their selections or specialize in diverse topics. Try asking a question about literature (or any specialty book subject for that matter) at a supermarket or hypermarket that sells books and the wisdom of this move becomes apparent.

The owner and operator of *Practical Paradigms*, a software business in Sydney, Australia, says, 'Regularly talk to your customers to determine their needs instead of feeling your way along with your own advice. By being strategic instead of tactical and you'll use your capital more wisely.'

Which Product Element Results in the Most Sales?

Many experts concede that most business competition takes place at the augmented benefit level. Unfortunately, the problem for small business owners is that augmented products (e.g.: perks and freebies) cost money and tend to become expected over time. A good example of this is reflected in the story of a *British Airways* team that wanted to place a small chocolate on the trays of its passenger meals as a means to treat customers. Unfortunately, when a cost analysis was completed it was determined that this gesture would cost the company over a million and a half dollars a year - so the idea was scrapped.

How, then, can a small business ever hope to compete in the product augmentation arena?

The answer, again, lies in good service. For the most part, great service is a wonderful way to augment a product without additional expense. For example, in her book *Alpha Dogs: How Your Small Business can be a Leader of the Pack*, author Donna Fenn explains how a local butcher went up against a *Wal-Mart* (and succeeded) by augmenting its customer service in a way few other stores can match. One way the butcher accomplishes this is to offer a variety of recipes and advice as to how to cook his products combined with personalized attention and service. One night he even drove to the house of a distraught customer at 11:30 to de-bone a leg of lamb that had to be cooked right then and there (the customer thought it had already been de-boned). In another example, the owner of a bicycle repair business (which was also competing against a local Wal-Mart) allowed a favored customer to rent a pair of bikes for free (prior to this request the owner had never considered renting his merchandise). As it happens, the customer was a high-powered management consultant and he was so happy with the owner's on-the-spot decision that he gave the bike shop's employees thousands of dollars worth of team training workshops. In another example, a small town ice cream parlor started informing its customers about closing time by locking its doors and making everyone dance 'The Time Warp' from *The Rocky Horror Picture Show*. Customers now pack into the parlor every evening just for this experience. The bottom line is that most people don't get this type of personalized service from big corporations - yet it's this type of inexpensive 'augmentation' that builds and instills customer loyalty.

Sometimes What Customers Want is Just So Simple

In 1997, I spent several delightful afternoons in Glasgow, Scotland listening to a man whose consulting work provided most of the funding for a university's graduate school. His office, literally piled to the ceiling with papers and reports, was located in an ancient attic on the university campus. I immediately fell in love with the place. This was the office of a true business practitioner. For several hours we swapped stories about work experiences. One of his better tales concerned a local museum that regularly lost money at its food service operation. The university had sent dozens of graduate students and professors to research the problem, but despite countless questionnaires and data collection studies no firm conclusions were reached. That's when he decided to pay the museum a direct visit. 'Within minutes of arriving I knew exactly what the problem was,' he explained, 'it was the tables. The only option to customers was a series of long tables that everyone had to use together. Needless to say, most people don't want to sit amongst strangers or groups of shrieking school kids so they ended up bypassing this area and going somewhere else for a cup of tea.'

His suggestion to the museum's managers was to get rid of the long tables and buy smaller, more intimate ones (which they did). Soon after, the food service court filled up and began making money. 'It all came down to providing what most people need after walking around looking at exhibits all day,' he said, 'and that is a few minutes of rest and calm. Tea and cake is an afterthought – it's the relaxation people want.'

Once Again…

Successful business operators know what their customers want, how they want it, and when they want it – and they often have the ability to respond quickly to problems and complaints. Knowing that a product has three distinct levels can provide a business with a new perspective regarding what is being sold and what customers seek. Two-way communication is key. Just as important, providing these benefits doesn't have to cost a lot of money. All it takes is a desire to improve, common sense, the ability to listen, and timely delivery.

Advice from the Pros

- There is nothing wrong with duplicating what another business sells. To attract and keep the attention of more customers, however, find, satisfy - and advertise- the primary benefit(s) they seek.

- Customers will usually pay higher prices for specialty products or services. This can translate into a higher profit potential for attentive business owners.
- Over the course of time, even good products and services will become boring in the eyes of customers. To avoid this, one or two small changes in a product, its use, or its' advertising can work wonders. (For suggestions on how to do this, see *Increasing a Product's Marketing Life* in Chapter 24)
- Don't let the everyday realities of running a business make you an introvert. Regularly seek, study, and anticipate changes in trends, technologies, and demographics.

Chapter 24
The Importance of Marketing

I don't fail. I merely find and stop doing the ten-thousand ways that don't work

Thomas Edison

Contrary to popular belief, building a better mousetrap will *not* entice customers to beat a path to your door. Just as importantly, good products do *not* sell themselves. For example, a wealthy entrepreneur in Tallahassee, Florida lamented the fact that he could not make a success of his enterprise despite it being a top-of-the-line establishment that stood head and shoulders above its competitors. 'When I built this place,' he said, 'I thought people would be lining up outside the door.' His words and the mournful way he stated them still send a shiver down my spine to this day. Perhaps not surprisingly, his experience underscores the findings of a comprehensive study of small businesses across the USA, which revealed that the greatest problem small-business managers suffer through the most is the development of sound marketing strategies (Miller, et al, 2001).

A Definition of Marketing

Marketing is a complex subject the breadth of which makes it difficult to define. In essence, marketing involves *everything* an organization does. It's purpose however, is to bring a buyer and a seller together. Put simply, every task in a business plays its part in either encouraging or preventing the joining of a buyer and a seller. From the product or service, to its advertising, to the way phones are answered, to the cleanliness of the establishment, to the training of employees, to an easy-to-use website, to a final sale, to asking for and responding to customer feedback, as well as *everything* before, in between, and after, all comprise the basis of marketing.

The Marketing Mix

The most popular way to explain the multiple facets of marketing is to break the subject down into digestible sections through an alliteration that's called the 'Seven P's of Marketing' or 'the Marketing Mix'. Keep in mind that each of these components must be examined, sharpened, and directed toward a specific type of customer in order to obtain the most from a marketing budget:

- *Product* – or more specifically, that which provides the *benefit* from whatever is being sold or produced.
- *Place* – the location (or time) where the product is sold or distributed.
- *Price* – the perceived value of the product.
- *Promotion* – communicating the product to potential customers.
- *People* – the employees and their knowledge or training that make and/or sell the product.
- *Physical Environment* – the ambience or 'feel' of the physical interior where the product is sold.
- *Processes* – the operational services and work processes that make an organization run smoothly.

Basically, the 'marketing mix' is a divide-and-conquer aid that compartmentalizes a business into workable sections for the purpose of improvement as a whole. Knowing what customers want beforehand (through research) helps identify opportunities. These opportunities are then further examined to uncover their strengths or weaknesses and the results are matched with the business's abilities. Afterwards, the results are targeted to a segment of the market where success is envisioned because scattershot approaches that try to attract the attention of everybody are usually ineffective. As discussed in the previous chapter, entrepreneurs should view their marketing mix in terms of *benefit perception* (i.e.: the benefits perceived by a potential customer) because all customers weigh in their minds the benefits they believe a product will provide before they buy the product. Customers then act accordingly - *if* the business is ready and able to finalize a sale.

The Promotion Mix

Businesses usually get their message to customers via a *promotion mix* (advertising, personal selling, promotions, and public relations):

1. *Advertising* is any paid form of a non-personal presentation and promotion of a product.

The Positives

- Advertising is a creative medium and its message can be repeated several times.
- Advertising can be used diversely: from building up a long-term image to triggering quick sales.
- Advertising can reach masses of people at a low cost per exposure.
- Consumers tend to view advertised products as legitimate.
- Large-scale advertising says something positive about a company's size and success.

The Negatives

- Advertising is impersonal and isn't necessarily persuasive.
- Most advertising only carries a one-way conversation with its audience.
- Advertising can be very costly and ineffective if the wrong medium or approach is used.

2. *Personal Selling* is the use of oral presentation in front of one or more prospective customers for the purpose of making a sale and building a relationship.

The Positives

- Personal selling involves personal interaction between two or more people so the needs and characteristics of a buyer can be determined quickly.
- Personal selling can create strong personal relationships with customers that lead to future sales.
- A buyer usually feels a greater need to listen and respond to a live person.

The Negatives

- It can cost a lot of money to hire, train, and maintain a good sales force.
- Personal selling involves a long-term commitment (advertising can be turned on and off, but a sales force takes time to hire and train).

3. *Sales Promotions* are short-term incentives designed to encourage the purchase of a product. Examples include coupons, contests, price reductions, offers, two-for-one-deals, and free samples.

The Positives

- Sales promotions often attract immediate customer attention
- They offer incentives to purchase or try a product by adding value for customers
- They invite and reward quick response

The Negatives

- By their very nature, sales promotions are usually short-lived and therefore they may not be effective in building long-term commitment

4. *Public Relations* involves the building of good relations with the public by obtaining favorable publicity and creating a good image. It includes handling (or heading off) unfavorable rumors, stories, and events.

The Positives

- Public relations is very believable – PR news stories, features, and events tend to seem real and convincing.
- Public relations campaigns can reach those who avoid salespeople or advertising since the

message gets to an audience as 'news' rather than a sales pitch.

The Negatives

- PR can create trouble if the company begins to believe its own spin, imagines that it's untouchable, and lowers its guard.

Product Life-Cycle

No matter how new or wonderful a product is, it will eventually go through phases akin to childhood, mid-life, and old age. This is called *product lifecycle*. Each phase of a product's lifecycle requires a different marketing approach because products can 'die' unless their decline is counteracted by an effective marketing campaign. In a product's introduction stage, massive advertising, promotions, and public relations are sometimes best for producing awareness. Personal selling, if used, can be geared toward convincing traders to carry the product or in attracting the interest of large buyer groups (clubs, professional organizations, companies, etc…). In the growth stage, advertising and promotion tend to dominate. In the mature stage, buyers are probably aware of the product already and may only need reminding. In the decline stage, promotions are usually prescribed, however, since marketing should ultimately be customer led, any combination of the above may prove to be suitable at any time (it all depends on what consumers respond to best). The message here is to keep a record of what works and doesn't work. As with many business endeavors, the best way to determine future marketing success is to study past success (see Chapter 18).

Increasing a Product's Life

Another method of prolonging interest in a product or service is to examine the product's:

- *Uses*, which involves adapting (or promoting) different ways to use a product. For example, a fitness center can use its aerobic studio for karate classes or group meetings. Baking soda is marketed for multiple purposes including cooking, cleaning, refreshing refrigerator interiors, and cleaning teeth. The most famous 'use' case, however, is a 1950's *Colgate* toothpaste advertising campaign, which stated that using Colgate freshens breath. Of course all toothpastes freshen the breath of users, but no other toothpaste company had said this before in its advertising. As a result of highlighting this benefit, Colgate's sales soared.
- *Users* - or increasing a product's appeal by targeting it to different groups. For example, a resort in Longboat Key, Florida told me that it takes the equipment from its outdoor children's activities and uses them in corporate teamwork promotion programs. As it happens, adults love the fun-and-games aspect of simple group participation programs (no matter how silly), particularly when a bit of alcohol is thrown into the mix. In addition, variations of the resort's exercise programs are geared toward the fitness conscious (amateur athletes), the health conscious (heart attack victims and the obese), and so on.
- *Usage* - getting customers to use more of the product. A classic example is the adding of '*Lather, Rinse, Repeat*' instructions on shampoo labels, which doubled the product's usage virtually overnight.

Don't Go it Alone

There's no way around it: a business cannot succeed without selling something and sellers *must* search for buyers. Additionally, the needs and wants of buyers must be determined and good products must be designed, promoted, and delivered, and their image constantly improved upon. It's an endless cycle, but there's no need to re-invent the wheel every time. Information is widely available as to how to attract buyers, display goods to maximum effect, and finalize a sale. Much of this information is available from companies that make, sell or distribute the goods or materials used by entrepreneurs. The *Kraft Foods* Company, for example, sends representatives to shop owners in order to inform them what type of products sell best according to local demographics as well as how to arrange cheeses and other items so as to maximize sales. The degree of accuracy regarding this type of information is astonishing. In London, England, I once watched a news team challenge three marketers who claimed that they could determine a shopper's gender, age, profession, and *first name* simply by looking at what the shopper had purchased. The marketers were then given three piles of goods and told to back up their claim. Forty minutes later, they correctly identified each shopper's sex, age, profession, and first name!

The false Illusion Inherent in 'Digital'

The business world is rife with buzzwords and trends. One such example is 'digital', which can mean anything from the use of computer technology (laptops, smart phones, and other hardware) to a focus on social media. In April 2016, an editorial by Keith Kirby titled *Digital is Dead* appeared on the *LinkedIn* business networking website. In his editorial, Kirby stated that he attended several 'digital' events in which the speakers and guests 'laboured on about how the digital landscape needs a digital strategy, and that digital marketing is the focus of the digital native.' It was at that point when Kirby realized that 'the very word 'digital' is held out as if it is some magic snake oil that was just pulled into town on the back of a covered wagon. The audience sits there, unthinking, open-mouthed and apparently amazed. It's loose talk, it's lazy and it's got to stop.'

He continued, '*Digital* is a dreadfully overused word. Leaders and companies need to focus on strategy, culture, and and so on, and the fact that they're handled using 'digital' tools and processes is not the point. We don't bang on about 'electric' lights, 'electric' computers or 'electric' toasters. It's no longer relevant and neither is 'digital'. What isn't digital? Not much. '*Digital* has become a proxy for fresh systems thinking, business models and new and better ways of doing things, including some things that weren't even possible only a short time ago. The way we devise organizational cultures for the benefit of all stakeholders, present brand engagement that is meaningful for customers and employees alike and develop strategy for sustainable long term success is what it's really all about. Let's stop using 'digital' as if it's 'abracadabra' and start thinking about what it is we're trying to do, not the medium we're doing it in.'

Marketing Does Not Require Fancy Schemes or Costly Expenses

One of the best compliments I ever received as a manager came from a friend who overheard a conversation in a shop. One of my competitors, a woman who'd been working for years in a business similar to the one I was leading, had earlier greeted my arrival in town with a shrug. Six months later, I'd wrested most of her customers (and potential customers) away from her. 'I've been here most of my life,' she angrily told the shopkeeper, 'yet now wherever I go I'm told that Jonathan Scott was here first.'

Incredibly, I beat her in the marketplace with no advertising budget, no sales staff, no structured marketing campaigns and – prepare yourself – *no telephones* (at the time we weren't accessible to a phone network).   Realizing my limitations, I studied the programs we offered (an equestrian centre, a sports club, a restaurant, and a golf course under construction) and determined where the most likely customer bases were located. I then spent a great deal of time visiting and introducing myself to schools, apartment buildings, neighborhood community centers and other places where these people regularly congregated. None of the other businesses in the area - and there were quite a few - had ever done this before (poster advertisements was about as far as they'd gone). Yet through repeated personal contact and the setting up of programs specifically designed for each targeted group *by* each group, I established a client base that stuck with me through thick and thin as the business grew. Yes, we eventually got telephones, hired more staff, and printed fancy brochures, but our success was solidified through personal service and countless handshakes that cost no more than time, shoe leather, and elbow grease. The moral of the story: for the small-business owner, marketing should be considered less of a broadcast medium and more of a customer-oriented dialogue.

Advice from the Pros

- Never underestimate the importance of marketing. No marketing means no business.
- A business cannot survive by sitting and waiting for customers to show up. Throughout every workday (and sometimes during rest days too) customers must be actively sought and won over.
- When starting a new business venture always factor in a budget for your marketing needs. Otherwise, you may spend all your capital on overheads and have nothing left for marketing.
- Don't be afraid to ask satisfied customers for referrals. Referrals are considered by many successful entrepreneurs to be the most valuable way to targeting prospective customers.
- Don't decide on marketing options based on how much they cost. Instead, start by figuring out the return you'll get on your investment. Cost-cutting and buying cheap are not wise practices when it comes to marketing.
- When targeting a potential customer who is a member of a club or professional organization, try visiting the venue where the organization congregates to increase your chances of networking. Remember to personalize your selling approach so that it fits the group's needs.
- Small companies that set their sights on contracts with large corporations or government offices should focus on building relationships with the people inside these entities rather than trying to contact them directly through advertising or direct mail.
- Work on image. Many corporations spend millions of dollars trying to convince consumers that they're small and local. Small businesses don't have to pretend. As a small business operator, mention your size and location as much as possible in your advertising if you're trying to attract local customers.
- Conversely, when making a sales pitch to large corporations or government agencies, focus on quality rather than quantity and think twice about mentioning that your business is small. Big companies often view small businesses as having limited resources and limited capabilities.

Chapter 25
Competitive Advantage Strategy

> *I don't know the key to success, but the key to failure is to try to please everyone*
>
> Bill Cosby

Contrary to what many people seem to believe, strategy is not about predicting the future; rather, it's about using the here and now to *prepare* for the future. This means developing an edge over rivals to secure customers and defend against competitors. In other words, strategy is about creating a competitive advantage.

Types of Strategies

Generally speaking, there are four types of competitive advantage strategy to choose from:

1. A *low-cost strategy* strives to offer the lowest prices around. The intent is to attract a broad cross-section of the market. Low-cost strategies usually depend on offering few frills, having a limited selection, and extolling somewhat acceptable quality. In a business that opts for a low-cost strategy, the emphasis is on continually seeking to keep costs down, year after year, in every aspect of the business without sacrificing quality altogether.

   In the marketplace, a focus must be made on trying to make a virtue out of the product's features that lead to low prices. Low prices can be an extremely valuable asset when attracting consumers because, in part, it costs little for consumers to switch to a low-cost product line. In addition, standardized products can and do satisfy the needs of many customers, but these advantages can be neutralized if a competitor adopts similar low-cost methods. Similarly, concentrating solely on low costs can divert attention from other important aspects that are dependent on the ever-changing tastes of customers.

   For the small business owner, the down side of this strategy is that it can be very difficult to compete against big rivals using low-costs. Big companies have the ability to benefit from bulk buying and large-scale production. Some even have enough clout to dictate purchase prices to their suppliers. However, if a small business employs only one or two people, workspace expenses are low, and products with low-cost materials are being made or offered, cheaper expenses might make a low-cost strategy viable.
2. A *differentiation strategy* seeks to broaden customer choice by selling different variations of a similar product. The aim is to attract a broad cross-section of the market by offering more variety (for example, *Proctor & Gamble* makes at least nine different types of laundry detergent so it can compete against the entire detergent spectrum). The idea is to provide value for buyers by building in the unique differences customers want (such as quality) in a product. The goal of a business that uses a differentiation strategy is to communicate its difference in credible ways while charging a premium price - because creating a line of diverse products usually results in higher costs. The job of the business is therefore to stress constant improvement, invest in innovation, and concentrate on the distinct feature(s) of each of its products offers. Doing so can build buyer loyalty, but only if the business fully understands what customers consider as valuable. Customers must see a distinct advantage with a differentiated product or they'll probably opt for a lower priced alternative.
3. A *focus* or *'niche' strategy* concentrates on a narrow part of a market rather than the whole market. The idea is to sell to a specific clientele whose preferences are known to be distinctly different from the rest of the market. The goal of the business is to communicate the product's

unique ability to its targeted buyers. The aim is to remain totally dedicated to serving the niche better than competitors and to not be seen catering to other markets (which can turn off the targeted market). The main reason for adopting a niche strategy is that big competitors don't usually cater to small markets because they don't see them as profitable. Yet make no mistake, if a niche market proves to be lucrative competitors *will* move in.

4. *Invention* or *Innovation* is a fourth strategy that entails coming up with a product or idea that is entirely new – or, thinking of a brand new use for an existing product (i.e.: putting a new twist on an old idea). By being unique a business has the ability to corner a new market if its idea catches on. The downside is that the public tends to be skeptical of new things and may require time before it accepts something different. Happily, the flexibility inherent in small businesses provides great opportunities and advantages when it comes to innovation, particularly when major players ignore new trends or improved production methods. For example, over the last seven decades, the average number of years companies have spent on the *Standard & Poor* index has decreased from 65 to ten, mostly due to the fast-paced introduction of innovations that big companies can't keep up with (Foster, 2001). Ironically, one of the reasons why big companies have difficulty keeping up with new developments and production methods is that it's cheaper to continue using depreciating assets (i.e.: machinery and equipment) because change is too expensive.

Sometimes a Good Strategy is So Obvious It's Difficult to See

Two hikers are walking through the woods. The first hears a noise, looks up, and sees a large, bear charging towards him. He turns to warn his colleague only to find him sitting on a rock, putting on a pair of running shoes. 'Are you crazy?' he shouts. 'You can't outrun a bear!'

'I don't have to outrun the bear,' the second hiker says calmly, 'I just have to outrun you.'

The point here is that doing one thing better than a competitor is sometimes all it takes to succeed.

Small Business Advantages

Even in the best of times it can be difficult for a small business to compete against bigger rivals. Chapters 23 and 24 revealed how entrepreneurs remain competitive under difficult circumstances by developing good customer relationships and providing good service. Additional small-business survival tactics include:

- *Promoting the benefits of being part of the neighborhood*. Small businesses that make themselves a viable part of their community are often repaid in kind. Sponsoring school functions, catering to clubs and social gatherings, and helping to run or sponsor local events are a few examples. All provide a great opportunity to promote a business as being a valuable neighbor and an integral part of its community.
- *Offering superior know-how*. Entrepreneurs are usually very knowledgeable about their product(s) as well as passionate and committed to their use. Try getting that type of service and dedication from an employee mopping the floor at a retail chain. Due to constant cost-cutting measures and low wages, many big corporations just can't deliver superior service to their customers.
- *Providing unique or superior value*. Adding a little bit extra can easily separate one business from the rest of its pack. This can be as simple as saying to a customer, 'If you have any problems or need additional help, call me and I'll lend a helping hand.' Alternatively, it could mean helping a client locate a product that your business doesn't currently offer, but would be glad to order, or helping customers locate a company that sells what your business does not.
- *Being accessible*. One of the more successful strategies used by fast food chains is a good location next to high customer traffic – both pedestrian and automobile. Small businesses that can't afford a prime location, however, can still capitalize on this concept by bringing a service or product to the places where customers live or work. Examples include lunch services that deliver

to work sites and offices, computer repair services that do house calls, or car washing and detail services that perform their service wherever potential customers park their cars.

Which Strategy is Best?

With competitive strategy, the question inevitably arises as to why a business can't cover its bases by choosing all available strategy options. The answer is because it's *very* difficult for an organization to be all things to all people. Imagine four different careers: writer, athlete, businessperson, and lawyer. As with any career choice, the literary world is full of competition. In fact, the odds of making a living as a fiction writer are worse than winning the lottery. It takes years of focused dedication, extraordinary talent (or luck) combined with some form of interim financial backing to succeed in fiction. Now imagine a person who not only wants to become a novelist, but also is striving to be a professional athlete. Then try to visualize this same person wanting to run a business while working to become a qualified lawyer. Absurd? Absolutely. Each career option simply takes too much time, money, energy, and effort on its own – and the same line of thinking holds true for businesses. Yes, some companies do succeed using two or three strategies, but they're the exception rather than the rule. Most businesses have enough on their hands just focusing on one strategy.

The Ten Commandments of Business Strategy

1. Always think in the long term.
2. Never get stuck in the pack with no distinctive competitive position.
3. Always invest in a clear, proper, sustainable competitive advantage.
4. Avoid strategies that will succeed only in the best of circumstances.
5. Show caution when pursuing a rigidly prescribed or inflexible strategy – changing conditions may render it obsolete.
6. Never underestimate the reaction and commitment of rivals.
7. Remember that attacking a competitor's weakness is usually more profitable than attacking its strengths.
8. Don't cut prices without establishing a firm cost advantage over rivals.
9. Don't start something (a price war, a marketing offer, a new service, etc.) that your business can't afford or stop.
10. Beware of attacking larger stronger rivals without adequate resources. (source: Thompson and Strickland, 1993)

Matching Strategy to the Business

For every commercial enterprise, a winning strategy is ultimately the one that best matches the style and capabilities of the business with the wants and needs of its customers. Although this may sound obvious, too many businesses don't get it right. The best strategy sets a direction that helps *prepare* for the future. It does not try to predict it. Just like a sports team prepares for its matches through constant practice and refinement, a good way for a small business to prepare for its future is to strengthen its weaknesses, hone as many skills as possible, research the competition, build a close relationship with customers, and remain adaptive and responding to whatever comes its way. In other words, knowing your business and its customers will help formulate the most successful strategy (see Chapter 9).

Advice from the Pros

- To determine a good competitive strategy, study the market you wish to enter *before* entering it.
- Every business should set specific goals so it can regularly measure its strategic progress (or lack thereof).
- Give strategies time to work. A constantly changing strategy is as bad, or worse, than no strategy at all.

- Always state what is unique about your product or business in your advertising.
- Know that competitors are not likely to welcome your new business into the marketplace. Expect to fight for your corner with a better-than-theirs marketing arsenal (i.e.: a better product, delivered by more competent people, from a more convenient location, and/or a unique physical interior, faster service, and solid, personalized promotions).
- Businesses that increase their efficiency, adopt self-sustaining production methods, reduce their use of virgin raw materials, lower or eliminate their waste, and decrease their pollution and energy usage, will have a distinct advantage in the coming future over those that do not (see Chapter 35).

Chapter 26
Quality

Quality is the elimination of variation

W.E. Deming

Perhaps no other word in the business lexicon is as misused as 'quality'. Most business magazines or books are absolutely brimming with stories about how implementing quality resulted in massive savings, enormous efficiency improvements, and/or a sea change in employee performance. Unfortunately, in almost all these cases little if anything is mentioned about how this newfound quality was acquired – and therein lies the wrinkle because quality isn't just about a cost-saving idea or some spectacular work-check program. Rather, it's an all-out, do-or-die, in-your-face, bottom line, fanatical way of thinking. But first, a little history.

The father of quality is considered to be an American named W. Edwards Deming. During WWII, Deming established spectacular results in various lines of production (upwards of 200% improvement) by believing in the value of employees. He stated that most troubles faced by companies begin at the top by people who put more of an emphasis on numbers rather than the human element and that superficial gimmicks and slogans often substituted for real improvement. He also said that the common business workplace, riddled with fear and short-sightedness, often resists innovation and change through counterproductive internal competition.

Deming found that customer respect and involvement unleashed the kind of improvements that met the challenges of competition and a changing marketplace head on. Unfortunately, when the war ended and the troops came home, most companies resumed their age-old practice of separating management from the workforce and dictating from the top. Meanwhile, Japan was desperate to recover from its loss. For decades it had suffered a notorious reputation for making cheap, low-quality goods, but when it came time to rebuild the country's new leaders decided to do so in a different way. In 1951, Deming was invited over to explain quality-control techniques. As a result, the quality of Japanese products has become legendary. Today, the highest award a Japanese company can win is the 'Deming Prize' – an honor so prestigious it's awarded on national television.

W. Edwards Deming's Points for Achieving Quality (abridged)

Take a look at the following points Deming wrote about and practiced in the early part of the last century. Just about every 'new' management concept taught in business schools or featured in contemporary business journals is a derivative of one or more of these concepts:

- Create a business culture that regularly asks for, and accepts, innovation.
- Invest heavily in training and research.
- Spend revenues on maintaining current equipment as well as acquiring new items.
- Work to improve every system – not just the end result of that system.
- Ask for statistical evidence of processes.
- Eliminate financial goals and quotas.
- Learn to motivate rather than give orders.
- Take the fear out of the workplace by providing an environment of constant learning.
- Break down barriers between departments and place an emphasis on communication.
- Eliminate superficial goals and slogans.
- Retrain people (and yourself) in new skills. (Deming 1986)

Condensing the Master

Deming's thoughts on quality have since been reduced to three important beliefs and re-christened *Total Quality Management*:

1. In a business sense, quality is often defined as the ability to meet customer needs 100% of the time. Because this is a statistical impossibility, perhaps it's best to think about it this way: *Quality is an ongoing process*. In every conceivable way, quality is a race without a finish line because it requires a dedicated commitment to continuous improvement. Quality does not translate into checking for defects after a product has been made; it's about building quality into every process *before* a product is made. Perhaps one of the loftiest goals in the quest for quality is that of *zero defects* (managing an operation that runs perfectly, creating a product that never needs improving, and so on). Unfortunately, like the notion of achieving customer satisfaction 100% of the time, obtaining zero defects is probably unobtainable. So why bother, right? Once again, it's better to view zero defects as a *means* to an end rather than an end in itself. For example, the reason why we educate ourselves and read business books isn't because we seek perfection, but rather improvement. So it is with quality. Again, it's the unending process that counts.
2. *Quality revolves around making improvements in everything an organization does*. This requires an intense focus on the customer. Keep in mind the definition of the word *customer* (everyone an organization serves) and the difficulty inherent in instilling quality into a business becomes apparent. Simply put, quality involves breadth and depth in its implementation. In small business terms, this means every person in the organization must be trained and made aware of the need for quality (breadth). Additionally, everyone must remain actively involved in the quality process (depth). This is because the concept of quality hinges upon a shift in perspective from manager to employee. Too many entrepreneurs think it's their duty alone to determine quality work solutions in their business. The error in this line of thinking is that quality isn't just a management issue – it's everybody's issue. Therefore, in the search for quality, employees (and other stakeholders) have to be trained to not only seek out problems, but to continuously find their solutions as well - a process that requires time, effort, dedication, and constant learning.
3. *Quality must be viewed as a measurable degree of excellence*. Accurate measurement entails looking at all of an organization's systems and breaking them down into countable units (the number of goods produced, the number of customers served, the amount of time it takes to perform a task or service, the costs involved in a process, the number of errors made, etc...). Only when an accurate system of measurement has been established can a baseline be determined. Against this measurement improvements can be made.

The Eight Dimensions of Quality

According to D. A. Garvin (1987), competing on the basis of quality requires identifying and enhancing eight different dimensions. Knowing what customers seek in terms of these quality dimensions can help a business gain a competitive advantage in the marketplace. Following are what customers usually look for in regards to quality:

1. *Aesthetics*: how the product looks, feels, sounds, tastes, and/or smells.
2. *Conformance*: the degree to which the product meets established standards.
3. *Durability*: the ruggedness or amount of use the product provides.
4. *Features*: the 'bells and whistles' (augmented product) that supplement the function of the product or service.
5. *Perceived quality*: the product's reputation.
6. *Performance*: the product or service's main operating characteristics (i.e.: how well does it do what it's supposed to do?).

7. *Reliability*: the product's ability to work when it is expected to work.
8. *Serviceability*: the speed and courtesy of attention given to customers as well as the competence and satisfaction that repairs provide.

Benchmarking

A term frequently used in connection with measurement and quality is *benchmarking*. To put it bluntly, benchmarking is a process that involves copying somebody else's good ideas. For example, a local health club may discover that a major competitor has a big screen mounted in its cardiovascular room so customers can watch television programs while riding exercise bikes. The local health club then does the same thing. Similarly, many companies routinely copy the services, operations, billing set-ups, and other systems of their rivals. Even unrelated industries can generate benchmarking ideas. Stories abound about how IBM used a Las Vegas casino's security systems as a benchmark to reduce employee theft. Or how a Chinese clothing manufacturer used a McDonald's menu format to simplify its product offerings. A colleague even told me about an airline that once reviewed an Indy 500 pit crew to see if any ideas could be implemented to help speed up baggage control systems.

For the small business, the benchmarking process usually begins by:

1. Using another business's program(s), product, or service as a reference point.
2. A study is then carried out to determine what makes this program or product successful.
3. An analysis is next conducted to determine if the ideas gathered from the other business will fit the business that wants to adopt its methods.
4. The challenge is to then try and implement the ideas of the successful company into the adopting business.

Putting Quality into Action

Any attempt toward quality without the input of customers could very well set a business marching off in the wrong direction. Since quality is both a state of mind *and* a task-oriented concept, it can't be achieved by one person alone. Quality is so all-encompassing it must also begin at both the top and bottom of an organization. Both internal and external customers must be involved. Here are two plans to get started. Keep in mind that for either of these plans to succeed, the determination of a zealot must be maintained, the patience of Job endured, and an extraordinary amount of persistence exhibited:

Plan A

1. Gather your employees together, or take an important client out to lunch, and ask that they highlight areas where improvements can be made with your product or service. Make sure the problem is business-related and is something that can be changed.
2. Don't be defensive or enter a state of denial. Become enthusiastic about finding a solution to the problem and search for and discuss quick ways to resolve it.
3. Set a target and implement the solution.
4. When the solution has been implemented, praise everyone involved.
5. Find another problem and repeat the above steps.

Plan B

1. Formulate a weekly quality meeting comprised of internal or external customers whose task is to make improvements.
2. Create an atmosphere where customers feel unafraid to voice their opinions and comments.
3. Provide your customers with an incentive to perform.
4. Establish a few basic ground rules outlining what you want to achieve.

5. Give your team time to gather confidence.
6. Keep it going.

Again, it is of paramount importance that quality involves *every* aspect of a business. Nothing should be overlooked because *everything* an organization does is inter-linked and requires constant attention, upkeep and care. Even duties as seemingly trivial as cleaning an organization's washrooms in some way reflects on the standards set in the business, and that ultimately sends a message as to the respect given to both internal and external customers. A long time ago, this concept was aptly illustrated in a nursery rhyme:

> For want of a nail, the horseshoe was lost
> For want of the shoe, the horse was lost
> For want of the horse, the rider was lost
> For want of the rider, the battle was lost
> For want of the battle, the kingdom was lost
> And all for the want of a nail.

The Mother of All Battles

Quality is more than just a term – it's a commitment to undertake unending work. As an ongoing crusade it's also a long-term goal and long-term term success should always be given precedence over short-term gains. To establish quality, time must be devoted to making products or services that work right the first time. Staff and personal training and development must never be sacrificed. Reliability should always take priority over speed. For each and every employee the pursuit of quality must become an unassailable state of mind, or the kingdom *will* be lost.

Advice from the Pros

- Regularly review the strengths and weaknesses of your company through the unbiased eyes of a second or third party. This can be as easy as installing a suggestion box in your business or taking the time to actually read your emails (especially those from customers).
- When it comes to customer wants and needs, never assume, always ask.
- Don't take criticism personally. Invest your business's passion and efforts in satisfying customer demands rather than in denials and/or justifications.
- Don't cut corners with quality. You'll pay dearly for it later.
- Always strive to have at least one aspect of your business be of higher quality than your competitors.

Chapter 27
Pricing

> *Price is what you pay,*
> *value is what you get.*
>
> Anonymous

According to legend, an enthusiastic patron of the arts once approached Pablo Picasso in a restaurant. 'Please draw me something,' she insisted, 'I'll pay you whatever you want.'

Eager to continue his meal in peace, the artist drew a few lines on a napkin and handed it over. 'That will be ten thousand dollars,' he said.

'Ten thousand dollars!' the woman shrieked. 'But it only took you twenty seconds to produce this!'

'No,' Picasso replied, '*forty years* and twenty seconds.'

In his own way, what Picasso was trying to explain to his admirer is that there is a difference between price and value. A *price* is the amount of money charged for a product or service that consumers exchange for the benefit of acquiring a product. *Value* is a perception and may involve demand or additional costs that are not readily apparent (such as labor, experience, or skill; or, for paying customers, the amount of money or time involved in switching over to another product).

Historically, prices for most products were usually established through barter or negotiation. Prices therefore varied depending on the buyer's skills. In the early part of the last century, however, F.W. Woolworth changed this practice by adopting a strictly one-price rule in all his stores – a policy that soon spread.

Facts about Pricing

- Price is the only component of the marketing mix (page 131) that produces revenue. All others represent costs.
- Price is the most flexible element of the marketing mix. Unlike the other marketing mix elements, a price can be changed quickly.
- Pricing is often the most significant factor affecting buyer choice, but it's a double-edged sword. If a price is too high, buyers may turn away. If it's too low, they may sense something is wrong and also turn away.
- Pricing is not often handled well. For example, if a price is cut by 10%, it may result in 50% of profits being lost.

Common Mistakes in Pricing

- Prices that are too cost-oriented (e.g.: customer value is not contemplated).
- Prices that do not reflect the current market (as above, there could be high demand or a lack of demand).
- Not taking into account the other marketing mix components (again, the perception customers have of value may not be contemplated – or perhaps it's misjudged).
- Not varying prices according to different products, different market segments, or promotions.
- Slashing prices in the assumption that doing so will raise sales (the problem could be ineffective marketing, low perceived quality, or any number of other factors which will not be solved by changing prices).
- Raising prices to increase revenues (again, the problem may lie somewhere else – and if it does, it won't be solved by raising prices).

Starting the Pricing Process

Before the pricing process begins, it's necessary to consider what it is you want pricing to do for your business. The obvious answer is generate revenue, but how will this be achieved? By being more competitive? By attracting a specific clientele? By getting more customers to try a product? How about a combination of one or more of these objectives? If your business is serious about making the most of its prices, then it's worth the time and effort to think about these questions, write them down, discuss them with colleagues, and think them over. The results can be used as a rough draft or a template for helping to set a good price.

Internal and External Factors that Affect Pricing

Consider the following when establishing a price for a product or service:

1. *Internal Factors* (situations or determinants inside the company). These include:

   A. *Marketing Objectives*, which are determined by the chosen target market and its position in the overall market. Knowing what targeted customers expect in terms of price can help determine a numerical value. For example:

   - Is the luxury market being sought?
   - Is the economy market being sought?
   - Is a survival strategy envisioned (selling below cost)?
   - Will product prices be based on demand?
   - Do research and development costs need to be covered?

   B. The *Marketing Mix Strategy* coordinates a product along with its production, distribution, and promotion to form a consistent and effective marketing program. Examples include:

   - *Target Costing* – Starts with the price the business wants to charge for a product, then works backwards (changing production processes, simplifying systems, working with outside suppliers and distributors, and deciding on a marketing campaign based on what the price of the product should be). Many small business operators do this when chasing clients. First they determine what the costs have to be to achieve the target price (based on customer demand), then they change their internal systems to meet the costs that will get them there.
   - *Value Pricing* is when the best strategy is not to charge the lowest price, but to make the product different (or seem to be different) so that it's worth a higher price.

   C. *Costs* are what the product actually costs to produce (and market), which must be covered in the price. Examples include:

   - *Cost-Plus Pricing* occurs when a standard mark-up is added after determining the fixed and variable costs of a product. This type of pricing is sometimes seen in construction companies or with lawyers, accountants and other professionals who figure their costs then add a 20-percent mark-up (or whatever percentage is deemed appropriate).

2. *External Factors* **are situations or determinants outside the company.**

   A. *The Market and Demand*. For example:

   - *Pure competition* – basing prices on 'the going price' (everybody else is doing it so we will as well)
   - *Oligopolistic competition* – having few sellers that are highly sensitive to each other's pricing strategies (i.e.: if one company changes its prices so will the others)
   - *Monopoly pricing* – by being a sole supplier, the producer can price as he or she sees fit

   B. *Consumer Perceptions* or basing prices on what customers think constitutes value (Note: This requires a *firm* understanding of consumer behavior).

   C. *Price-Demand Relationship* involves setting prices according to market demand. The higher the demand, the higher the price. The lower the demand the lower the price.

D. *Competitor's Costs, Prices, and Offers* include basing prices on the overall selling environment.

Pricing in Action

The following list (which uses the leisure industry as a backdrop) shows the many different types of pricing strategies available to entrepreneurs along with examples that highlight their application.

Pricing Type	Definition	Example
Breakdown	Prices are broken down into palatable segments.	A $1,000 gym membership is sold in installments (4 payments of $250 or only $2.75 per day).
Seasonal	The price is adjusted to reflect periods of time.	Prices rise during peak seasons or are reduced during slow times.
Pay One Price or **Pay as You Go**	(self-explanatory)	In amusement parks - either pay one fee and ride all the rides, or pay for each ride separately.
Bundling (Unbundling)	Services sold as a package deal or split up and sold separately.	Activities sold in lots such as 10 aerobics classes or 5 tennis lessons. Unbundling would sell these as single units.
Exclusivity	Paying for 'snob appeal'	Paying premium prices for trendiness or what is perceived as social esteem.
Discount	Low prices	Customers buy because the price is low.
Captive	Locking in customers by initially selling cheap then charging a premium for necessary components.	A classic example: computer printers that are cheap, but the ink cartridges are very expensive.
Psychological	Prices do not approach what is perceived as too much.	Charging $99 instead of $100. Listing member prices next to non-member's.

Promotional	Not paying a set price.	Having constant sales or always bettering what the competition charges.
Value Added	Adding 'freebies' or other incentives without charging for them.	Two-for-one deals. Baker's dozen (13 for the price of 12).
Trials	Easing the perceived risk by encouraging participation before closing the sale.	Offering the first tennis lesson free. 90-day trial periods or, giving a money back guarantee.
Hidden Costs	Not displaying extra costs needed to complete the product or service.	Not including tips, taxes, labor, parts, batteries…
Fixed to Variable	One price begins the process, the next price(s) is (are) determined by use.	Paying to get into the disco, then separately for each drink.
Differential	Charging customers differently.	Members pay one price, non-members pay another.
Creative Variable	Setting prices according to demand, but in an imaginative way.	Altering the price depending on certain variables (selling rope by the meter)
Price Performance	Price determined by value perception.	Museums or exhibits asking guests to leave a donation instead of charging an entrance fee.
Differing Segments	Same product/service sold at different prices.	Children, senior citizens, groups, adults, etc, each pay a different price.
Product Line	Prices arranged to get customers to focus on	Expensive goods are displayed next to lower 'the deal'.priced goods.

Summing Up Pricing

When setting prices, don't sell your business short. According to seasoned practitioners, most businesses should think about how high they can reasonably go with their prices rather than how low – while always considering what customers will perceive as fair and ethical. The most common mistake entrepreneurs (particularly service providers) make when it comes to setting prices is not charging for accumulated knowledge, time, and experience (see page 54 and the section titled *High Prices versus Low Prices* in Chapter 9, as well as *Reason #10* in Chapter 10). Never stop analyzing why and how your prices are established and always be open to exploring and considering new ways to achieve pricing satisfaction.

Advice from the Pros

- Price your products correctly the first time. It might be difficult to raise them later.
- Factor your time and skills into your prices. Don't undercharge for your time and expertise.
- Always remain aware of your competitor's prices, sales, and promotions.
- Try to keep your prices (and therefore your profits) as high as possible by offering additional or unique services your competitors can't, don't, or won't provide.
- Remain vigilant when it comes to the prices you pay for supplies, materials, and merchandise. Don't be tempted to buy cheap. As the saying goes, those that buy cheap, usually buy twice.

Chapter 28
Selling

> *A successful person is one who can lay a firm foundation with the bricks that others throw at him.*
>
> David Brink

There's a big difference between marketing and sales. Marketing brings a buyer and a seller together. A sale is the point where a prospective customer hands over money in exchange for a product or service.

Without question, selling is the ultimate objective of every business and arguably the most important aspect of business success because *everything* hinges upon it.

Strangely, however, despite the fact that sales can often make or break a business, it's difficult, if not impossible, to find a university or a business school that offers a course in selling as part of its curriculum. Few academics, it seems, will dirty themselves with what they consider to be a common vocation that is not worthy of study. This is a shame because there's nothing plebeian or disgraceful about selling. The ability to sell forms one of the cornerstones of business and like any business process it should be studied, practiced, and constantly improved upon.

The Art and Science of Selling

Business schools may not be interested in what successful entrepreneurs consider to be the most important part of commercial enterprise, but that doesn't mean that there's no shortage of courses and books ready and willing to fill the academic void. Be that as it may, sales training on its own cannot work miracles because the *art* of selling is based largely on the aptitude and ability to connect with a customer. Stated differently, an introverted, detail-oriented, technical nerd - or a hyperactive, in-your-face, blabbermouth - may never be able to transform themselves into a focused salesperson. This is because selling often requires solid investigative work: tracking down potential customers, giving persuasive fact-based presentations that target customer needs, and discreetly closing a sale. Put another way, any idiot can take a sales order, but those who can squeeze money out of any sales prospect are in a league of their own.

Selling 101: Understanding Customer Motivation

They key to successful selling is in understanding customers and their motivation. Two factors are involved. The first is moving toward a goal or reward. The second is moving away from fear or loss. If you can work out which one of these motivates your customers (or can figure out how both of them can), you're well on your way to making a sale (Parinello, 2003). Put another way, successful selling involves moving from a *selfish* 'me, me, me' point of view, to a *self-less* '*customer*, *customer*, *customer* perspective.

Doing Your Homework (or, Knowing Who Your Customers Are)

To a competent salesperson, a customer is someone who needs a product and has the financial resources to buy it. Generally speaking, customers fit into two categories.

- *Potential customers* are the individuals that walk into a business because of its location or those who respond to an ad or promotion. Potential customers are therefore those who use, show, or have shown, an interest in the type of product a business sells.
- *Prospective customers* are the *unnamed* and as yet *unseen* individuals or groups that roughly match the description of a potential customer. Prospective customers tend to live or congregate in similar areas and can therefore be tracked down by placing ads in the newspapers or magazines

they read (or on the radio and television programs they listen to or watch), by going through a local phone book (like-minded people tend to live in the same area), by talking with potential customers, by reviewing mailing lists, by conducting demographic research, and so on.

Successful selling begins with updated research that investigates and records the whereabouts of prospective and potential customers. This makes it easier to target the people most likely to buy a product rather than wasting time, energy, and money, on those who will not.

What Every Good Salesperson Learns

By improving one's selling abilities it's also possible to improve one's marketing efforts, establish connections with customers, and acquire a better understanding of the marketplace. This is because selling is a learning process that teaches entrepreneurs (and other sales-oriented individuals):

- *about their products*. Good salespeople learn their products inside and out. They learn the strengths, weaknesses, and differences as well as the features, advantages, and benefits. Equally as important, they learn how to match these qualities to a customer's needs.
- *how to listen*. Through personal interaction a good salesperson can find out what his or her customers need, how they need it, when they need it, and if anything else is needed to go along with it.
- *what customers expect*. Hard-selling (placing pressure on customers to buy quickly) can repulse customers while the soft-sell approach (giving customers time to make up their minds) can result in lost sales. A good salesperson will learn what his or her customers respond to and will use that information to predict what will work with future customers.
- *the capabilities of the business*. Effective businesses constantly improve their policies and capabilities to suit customer needs. As a result, they never promise what they can't provide.
- *the art of persuasion*. A winning salesperson masters the skills of communication (accuracy, brevity, and clarity) and knows how to obtain feedback by asking questions that begin with why, when, how, or where (try answering 'yes' or a 'no' to them).
- *presentation skills*. A good salesperson practices how to connect with an audience in 30-seconds or less. Thirty-seconds is usually enough time to build trust, get a customer involved, erase a few doubts the customer has, and prove any claims being made.
- *how to avoid wasting time*. For maximum cost effectiveness an experienced salesperson doesn't spend time with people who don't have the ability or authority to buy a product. Although these people may be valuable in providing information about the person who *can*, sales efforts are best spent on the person who has buying power rather than his or her underlings.
- *how to handle objections*. Learning to deal with objections is crucial. Is the customer stalling or is he or she simply unable to make the next move? Does the customer have a genuine need for the product? Does the customer have enough money to buy the product? A well-trained salesperson will find out.

Two Basic Sales Approaches

'If you can fake sincerity,' said comedian George Burns, 'you'll make it anywhere.' For the most part, however, people can't fake sincerity and their pathetic attempts to do so can often be spotted a mile away. To avoid falling into the insincerity trap, a good salesperson makes certain that each and every customer feels as if he or she is the only and best customer in the world. Following are two ways this can be achieved:

1. *Relationship building* involves establishing a rapport between a seller and a buyer (which takes time). For example, some customers hate socializing and only wish to talk business. Others need to be reassured that they're talking to a sympathetic individual, which means that they may not want to 'talk shop' for quite some time. Good salespeople know how to measure up to each

customer type by asking themselves: Is the customer amiable, family-oriented, and affected by warmth, safety and security factors – or an analytical type impressed by facts and figures? Does the customer have a busy schedule and a short attention span – or is he or she easily impressed with the names of other clients that use our products? The bottom line is that customers only buy from people they understand and connect with - so do some research.

2. *Targeting customer problems* involves identifying specific problems a customer faces and showing how a product will uniquely resolve it. Some companies have increased their revenues up to 1,000% using this method. For example, if a business manufactures first aid kits for factories, rather than bragging about their low cost, the materials they contain, or the design awards they've won, find out what injuries have been suffered in the past by the employees of the factory being targeting and use this information in the sales pitch. In a factory where employees are prone to burns this could be accomplished by saying, 'studies show that by using the materials in our first aid kits, burn scars are reduced by 63% and pain is reduced by 80%. Furthermore, by having our kits on your premises, your insurance premiums can be lowered by up to 14% *and* your company will save an additional $2,000 per year because of the current discount we're offering.'

This personalized approach helps achieve three objectives. (1) It gets a customer emotionally connected to the product. (2) It targets real problems with real solutions, and, (3) it shows the customer what is at risk by not using the product. Put more succinctly, in one fell swoop it shows a client how he or she can (a) move closer toward a goal or reward and (b) move away from fear or loss (Parinello, 2003).

Sales Calls

A sales call is a *face to face meeting* with a potential customer and as such must be planned in advance. This means researching, writing down, and studying what needs to be done before a first move is made.

Once the background work has been completed (i.e.: researching the targeted customer and his or her business), the next step of a sales call is to get on the phone and pay homage to the customer's 'gatekeeper'. A gatekeeper is a secretary or assistant who answers the phone and/or makes appointments in the office of the person to whom a business wishes to sell. The task of selling will be made much easier if the gatekeeper is treated well.

When the perspective customer gets on the phone, most professionals suggest that your focus should be on making an appointment – *not a sale*. This shows respect for the client's time. It also avoids making the all-too-common mistake of pouring on the goods straight away. For an effective sale to take place a customer's attention must be undivided. That's why a face to face meeting is the objective of the phone call. State your name, the name of your business, and the benefit of what is being offered. Then say the following, 'I'd like to make an appointment to meet with you. Fifteen minutes should do it. Will tomorrow morning at ten o'clock be okay?' Say this in a relaxed and informal manner. Be ready to suggest arranging an alternative meeting if the customer is not available during the time offered.

The Do's of Making a Sales Call

According to entrepreneur and author Jim Green (2002), an effective sales call should not last longer than 15 minutes. Green goes on to say that every meeting should begin by thanking the prospect for his or her time followed by a brief introduction of yourself and the business you represent. Immediately thereafter, your product and its benefits should be described in about thirty seconds. The rest of your time should be spent determining the needs of the customer (if this hasn't been done in advance) and matching them to your product. A product sample, some photographs, or a brochure should be produced *after* the 30-second presentation. If these are introduced beforehand the customer's attention will be diverted from the sales pitch. Following are a few more pointers:

1. *Turn up for the appointment five minutes early (but not any earlier)*. As Woody Allen once said, 'Eighty percent of success is showing up on time'.
2. *Have a positive outlook and attitude*. What you believe *before* the sales meeting will probably determine how it ends.
3. *Stay focused on the objectives of the meeting*. Selling approaches should be practiced again and again until they can be delivered in a relaxed and casual manner that stay on track.
4. *Listen to the customer*. Ask customers to describe their business (they'll probably be very flattered and eager to do so) then sit back and learn about their needs.
5. *Be prepared for a little give and take*. Don't lose out on a sale because your sales pitch has been chiseled in stone. Find a way to connect the benefits of the product being offered (including payment and delivery) with the needs of the customer.
6. *Ask for the sale*. At the end of the presentation it's unlikely that the customer will jump up and say, 'Sounds great! I'll buy two-hundred!' If a 'yes' response is not forthcoming, respond to any objections and gently ask for the sale again.
7. *Always remember that an unclosed sale is not a lost sale*. After the meeting, write down what happened, what was discussed, and any objections that the customer made. With a little work this can be refashioned into a future sale.
8. *Learn to handle rejection with dignity*. Particularly at the beginning of one's selling career, most salespeople lose more times than they win. Rejection should not be taken personally. Move on.
9. *Learn from any mistakes*. Often the most powerful lessons in life come from failure.
10. *Keep sales records up to date*. Doing so will improve success rates and may lead to further sales.

The Don'ts of Making a Sales Call

1. *Never show up at a sales meeting reeking of garlic, alcohol, perspiration, etc*. Doing so is highly unprofessional.
2. *Don't talk too much*. This can be seen as threatening, unsettling, or just plain rude or tedious to a potential customer.
3. *Don't be ignorant about your product range*. Always be prepared to answer questions.
4. *Don't be overconfident*. Unchecked eagerness is not an asset when it comes to making a sale.
5. *Don't skim over the benefits of a product by 'going for the kill' to quickly*. Be measured and meticulous in your approach by showing an interest in the customer.
6. *Don't promise something that can't be delivered*. All future sales with the customer will be lost (sales to other customers will also be lost if word of your dishonesty spreads).
7. *Don't argue with the customer*. Salespeople who argue with their customer lose sales.
8. *Don't knock the competition*. Let the customer do that.
9. *Don't forget to ask for the sale*. At the end of every presentation, ask for the sale (see Chapter 29).
10. *Don't talk yourself out of the sale.* Once the sale has been finalized, thank the customer, hand him or her your business card or brochure, and politely leave.

Advice from the Pros

- Every single one of a business's front-line employees should be taught how to sell. Ignoring the fundamentals of selling is akin to turning away countless sales opportunities every day.
- Ensure your front-line employees fully know about, and believe in, the products you are selling. For example, if your business sells mobile phones, make sure your employees use your mobile phones. If you operate a restaurant, make sure your employees have sampled your menu items. If you own a fitness club, make sure your employees train on your equipment. Few things turn off customers faster than that millisecond pause between asking an employee if he or she uses

the product and the wide-eyed 'yes' lie that the employee eventually stammers out.

- You and your employees are a direct reflection of your business. No matter how good a product is, if your salespeople radiate a cluttered business, a cluttered wardrobe, and a cluttered life, customers will be turned off by what they see as rampant disorganization and sloppiness.
- Remember that selling, like any human endeavor, often takes practice and time. Don't be impatient and don't give up. Some people take years to develop a great sales technique.
- Don't 'cost-cut' the human side of your business. Distancing yourself from customers only diminishes the chances of making a sale.
- Be open to advice and feedback. Feedback and criticism are the only ways a sales technique can improve.
- Read as much as you can about selling. Discuss the subject with others. Visit sales websites and/or attend sales-training workshops and meetings. You (and your employees) can never get enough sales training.
- If the customer says no, don't see this rejection or failure as an insurmountable obstacle. Learn from your mistakes, do some more homework, put together a different approach, and contact the customer again (after sufficient time has elapsed) with an improved performance.

Chapter 29
Closing the Sale

> *Defeat never comes to any (person) until (he or she) admits it*
>
> Josephus Daniels

Imagine that you're on a sales call and are trying to make a sale. You've done your research, found a potential customer, made an appointment, showed up on time, and made a strong presentation… now what?

The answer to this question is to sit back and listen to what your customer has to say. One of four things will happen. (1) The customer will have an objection. (2) The customer will want to hear more (and will subsequently show some positive buying signs). (3) The customer will say 'no', or, (4) the customer will say 'yes'. Here's what should be done in each situation:

1. When the Customer Has an Objection

Very rarely will a customer give an abrupt 'no' to a sales presentation. Usually an *objection* will be given instead. The golden rule with objections is to shut up and listen to them. Don't interrupt with a machine-gunned, point-by-point rebuttal. Doing so will be seen as an eagerness to disprove or discredit the customer, which is very off-putting. Instead, place yourself in the customer's shoes. By understanding what the objection (or fear) is it can usually be dealt with. Chances are another customer has had a similar objection. If so, you should know how to deal with it. If not, you'll have to think quickly. Following are a few ways sales genius Tony Parinello suggests preparing for sales objections:

- *If the customer says*, 'Sorry, but we've decided to go with another company' or, 'We've been dealing with Company X for years now and we want to stay loyal.'

  You should say, 'Okay, but before I go, would you like to know how much your commitment to Company X is costing you?' Then proceed to state the facts without bad-mouthing the competition.
- *If the customer says*, 'I don't like (the inherent weakness) of your product.'

  You should say, 'That's actually one of our strengths.' The idea is to then turn the weakness into a strength. For example, if you're selling home burglar alarm systems and the customer believes that they're too complicated and take too long to turn off, a good rebuttal is to say, 'We designed them like this because if they take longer for you to turn off, they'll also take a long time for a burglar to turn off.'
- *If the customer says*, 'Your product costs too much.'

  You should say, 'How much lower would our price have to be so you can meet your profit margins?' This allows you to investigate the needs of the customer and puts you in a position to relay the strengths, added value, or uniqueness of your product. Be careful, however, and don't waste time with people who can't afford the product or don't want to pay for quality.
- *If the customer says*, 'Thanks. I'll phone you next month and let you know what our decision is.'

  You should say, 'Okay, but before I go, what exactly do you want to hear or see during that time that will allow us to better meet your needs?' or, 'I've got an idea. How would you like to meet another customer of mine and talk to him or her about the product over lunch?' The point here is to avoid the brush-off (which is what the customer is doing) and provide additional options without obediently skulking out the door.
- *If the customer says*, 'No way. Your product (or business) has a bad reputation.'

> *You should say*, 'Sorry to hear that. Tell me, if one of your salespeople heard that comment from one of your customers, how would you ask them to handle it?' Or sit back and let the customer dump on you. Take notes and take the heat. When he or she has finished speaking, articulate exactly what your company has done to correct the problems the customer has raised. (Parinello, 2004)

2. When the Customer Displays 'Buying Signals'

Almost every sales manual contains a list of signs that highlights what customers do or say when they're ready to buy. Do these signals guarantee that a sale is guaranteed? Unfortunately, no. What they do reflect, however, is that the customer is interested. Traditionally, a buying signal is made when a customer:

- makes positive noises (i.e.: 'Really?' 'Wow!' 'Hmm-hmm.' 'Ooh!'),
- asks for a sample,
- asks for a reference from another customer,
- asks detailed questions about the product or service (i.e.: 'When is the earliest it can be delivered?' etc…),
- mentions a bad experience with another company,
- repeats a question that has already been answered,
- comments (good or bad) about the price of the product,
- asks 'test' questions (i.e.: 'What if I don't like it? Can I bring it back? What if I can only pay by credit card?' and so on…), or,
- asks for your professional opinion.

Remember, while it may be true that a customer is 'playing ball' by using such phrases, he or she may still not be ready to sign on the dotted line. You must therefore keep the process moving by listening to what the customer is saying and how it's being said. Then address any remaining objections.

3. When the Customer Says No.

Most unsuccessful sales attempts are a result of poor planning. Once again, before meeting with a potential client, do your homework:

- *What are the needs of the customer and the needs of his or her company***?** (i.e.: What are his or her past sales habits? How was the name of the customer obtained? Where is he or she located? Who are his or her current suppliers and customers?…) Knowing this information can help customize your presentation.
- *What type of personality does the potential customer have?* Do family and friends come first? Does he or she need to feel important? Is he or she impressed with facts and figures? Knowing the answers to these questions will help you put together a presentation that fits your customer's personality. For example, if the customer is family oriented, stress the fact that your company will remain loyal through thick and thin.
- *Is the customer moving toward a goal or reward – or away from a fear or loss?* Your sales presentation should reveal how one or both can be accomplished.
- *Did you get the customer emotionally involved in the product?* Did you prove how much money the customer or his or her company will save - or demonstrate the specific value that will be obtained? Did you discover a problem the customer was facing (or could face) and show how your product is the best solution? Was a free sample provided?
- *Remember that an unsuccessful sale is not lost forever.* When a 'no' is given and nothing further can be obtained (or if you're wearing out your welcome), get up, shake hands with the customer, present your business card and leave. The information collected from the meeting can be analyzed over the coming weeks and months. Stay in touch with the customer (without being a

pain in the neck) and try again later.

4. When the Customer Says Yes

Congratulations. Now thank the customer, let him or her know how they can get in touch with you, and leave. Don't oversell. Don't accept an invitation for a cup of coffee. Don't hang around. Don't ask what the customer thought of the big sports game last weekend. Don't do anything that will jeopardize in an instant what took a lot of hard work to obtain. Just thank the customer and politely leave.

Issues that Should be Pondered Toward the Close of a Sale

- Don't appear too keen or nervous.
- Don't ignore the strong points or nuances of your presentation and/or product.
- Don't talk too much (listen to the customer).
- Don't ignore any buying signals.
- Don't push it.
- Stay calm and relaxed.

Closing the Sale

According to many successful entrepreneurs, the best way to close a sale is to simply ask for it – and the best way to do that is by stating a question that cannot be answered with a 'yes' or a 'no'. Ideally, the question should be tailored to imply that the customer has already reached an agreement. Suggestions include:

- 'When would you like to get started?'
- 'What type of payment would you like to make?'
- 'Is this purchase being made for you or is it a gift for someone else?'
- 'Would you like to put a 20% down payment on this purchase or is 15% easier?'
- 'We can ship this order today. Does that suit your needs?'

If the customer is still not quite there, but continues to show interest, another approach is to throw back the customer's questions so that he or she is forced to answer back in a positive way. For example, if the customer asks, 'Does this come in any other colors?' the response can be, 'Would you like it in another color?' or 'What color would you like it in?'

The point is to keep momentum moving toward the sale.

What To Do When the Customer Balks

Let's assume the customer is still undecided. Your job is to find out why. Statistics show that roughly 85% of customers that walk out of a sales negotiation never return. It's therefore prudent to hang on to a prospect for as long as possible and…

- determine the underlying reason for the hesitation and address it. Respond to and alleviate any uncertainties and fears by using positive comments to make the customer feel better about making the commitment.
- Remind the customer why he or she was interested in the product (which should have been discovered earlier) and reinforce these interests.
- Some professionals suggest guiding the customer to the end of the sale by asking close-ended questions that demand a 'yes' answer and get the customer in the habit of saying yes.
- Don't raise the hackles of the customer by issuing threats, dares, or insults. Examples include, 'Well, if you want to pay a higher price for a worse product go right ahead,' or 'Fine, talk to our competitors. You'll be back.' Or 'If you say no today, we won't make this offer again.' Remember, your objective is to sell a product – not force the customer to dance to a tune.

- If all else seems to be failing, consider offering a trial run or a free sample. This develops a physical and emotional link between the customer, your business, and your product. Obtain the customer's contact information when this offer is made. That way a follow up call can be made.
- Ask for the sale again. If you can't openly ask for a sale in a straightforward manner you may be suffering from a confidence problem. Do you believe in your product or not?

Advice from the Pros

- Always point out the extra benefits the customer will receive by doing business with you rather than just purchasing the product.
- Don't let a former bad experience with a customer affect your attitude. If your last customer turned you down, shrug off the disappointment, learn from what happened, and press on.
- Similarly, if your last sale was a success, don't come across in your next sales encounter as arrogant and cocky. Learn what was done correctly and stay grounded. Every sales encounter should be treated as if the customer you're speaking with is your first and best.

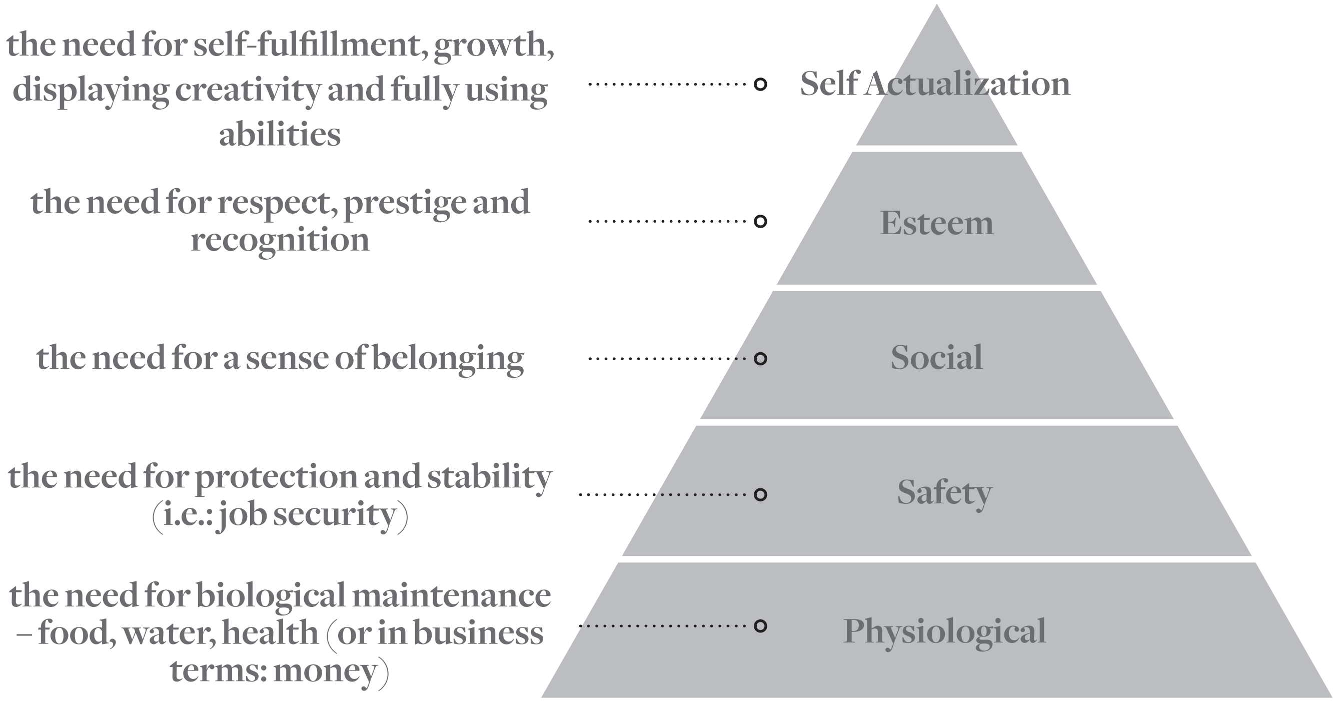
Chapter 30
Getting the Most from Employees

> *When dealing with people, let us remember that we are not dealing with creatures of logic. We are dealing with creatures of emotion who are bristling with prejudices and motivated by pride and vanity*
>
> Dale Carnegie

Motivating Employees: Four Separate Theories

The *Academy of Management Journal* once conducted a survey that sought to determine the most influential theories in all of management. The second highest honor was awarded to Abraham Maslow and his 'Hierarchy of Needs' motivational pyramid (see FIGURE 30-1). Maslow's pyramid is based on two underlying principles. When seeking motivation: 1) everyone starts at the bottom and attempts to move up when they see that the need immediately above is not being fulfilled, and, 2) a need cannot be activated until the one below it has been met. The following illustration shows Maslow's pyramid in diagram form.

Figure 30-1 Maslow's Pyramid


the need for self-fulfillment, growth, displaying creativity and fully using abilities
Self Actualization
the need for respect, prestige and recognition
Esteem
the need for a sense of belonging
Social
the need for protection and stability (i.e.: job security)
Safety
the need for biological maintenance – food, water, health (or in business terms: money)
Physiological

As with many groundbreaking ideas, Maslow's theory continues to be debated to this day. Here, however, it's not important to either agree or disagree with it. The idea is to understand that all people have needs and seek to fill those needs – and smart managers, when searching for ways to keep their staff motivated should find out what those needs are (note that the top four motivators in Maslow's pyramid do not require money).

McClelland's Theory of Three Essential Human Motivations

David McClelland more or less continued in the same vein as Maslow (trying to determine how employees are motivated) by identifying three essential employee needs. He characterized them as:

1. *The Need for Achievement*: the desire to do better, solve problems, and master complexity.
2. *The Need for Power*: the desire to control other people and influence their behavior.
3. *The Need for Affiliation:* the desire to have friendly relations with people (McClelland, 1961).

McClelland argued that people, over time, acquire or develop different stages of these needs as a result of their experiences and that each stage involves a distinct set of work environments. To ensure optimum employee performance it's therefore a manager's duty to recognize the needs of employees and create appropriate work settings to satisfy them. For example, delegation can satisfy a person's need for achievement or power, while the creation of project teams may satisfy affiliation needs.

Herzberg's Two-Factor Theory

In 1967, Frederick Herzberg devised a two-factor motivation theory based on a broad study of people at work. Herzberg concluded that there are two categories directly relating to job satisfaction:

1. *Work Content*: includes what people do while at work.
2. *Work Setting*: is the actual environment in which work is done.

Herzberg states that these two areas must be handled separately. Work content involves satisfying an employee's sense of achievement, responsibility, and personal growth. Work setting factors (or hygiene factors) deal with an employees' work environment. Therefore, if productivity is down and improvements must be made, the manager needs to find out which of these factors needs attention. Adding piped-in music and painting work areas may necessary to improve employee work settings, but these measures could be useless if the problem lies with work content. Likewise, improving job titles, introducing flexible work hours, acknowledging work and other intrinsic factors may not help with poor environmental work concerns.

Alderfer's Existence-Related-Growth Theory

In 1972, Clayton Alderfer sought to improve on Maslow's hierarchical pyramid by condensing its five categories into three:

1. *Existence Needs:* the desire for physiological and material well-being.
2. *Relatedness Needs*: the desire to improve interpersonal relationships.
3. *Growth Needs*: the desire to pursue personal growth and fulfillment.

Alderfer's theory is meant to be more flexible than Maslow's. Alderfer says that people can move up and down his hierarchy of needs at any given time. If, for example, a higher need can't be fulfilled, a lower previously satisfied need can be re-activated in its place in what Alderfer calls a frustration-regression principle.

So Which Theory is Best?

The success of any management theory depends on the employee, the situation, and the manager. Put another way, the answer tends to become more obvious when a business owner knows his or her business, makes the effort to listen to employees and understand their character, and is involved in all aspects of the workplace.

Achievement, growth, and creativity form the foundation of many motivational factor theories, however, they are little more than words if they're not put into practice. For example, in the author biography section mentioned at the start of this book, it is stated that I turned around three businesses. The statement is accurate, but in each of these organizations I only ever came up with a half dozen solutions to the seemingly infinite number of problems encountered. The staff conceived the remaining ones. As their manager, I merely let them succeed - something none of my predecessors had allowed. Mind you, it took months to train these people to be responsible (and brave) enough to solve their own work challenges, but after that mountain was climbed each business improved in leaps and bounds. Simply put, as a manager I did not have a monopoly on intellect or achievement.

By allowing my employees to reach the top of Maslow's Pyramid (i.e.: allowing them to put into action their own creative solutions) their jobs became more fulfilling and rewarding and they worked harder. Equally as true is that they ended up requiring less supervision.

Getting to the Top of the Pyramid

Is it important to predetermine a precise way for an employee to do perform or her job? In some cases, yes - set procedures must be followed due to safety and other factors. Otherwise, no. It's sometimes pointless to compare what an employee would do in similar circumstances. In most cases a *result* is more important and should suit the task's purpose. In other words, if a solution is not contingent upon its process, then the talents and abilities of employees should be left to their own accord. This is more than just a philosophical argument. If the right people are hired, trained accordingly, and provided with whatever is necessary to complete their jobs, then the manager need to be extracting as much from these people as you can. The early stage of this process is called delegation (transferring a manager's decision-making authority and ability to act to a subordinate). Delegation involves:

1. choosing the right employees for the right job,
2. informing employees of *exactly* what needs to be done (creating responsibility),
3. providing each employee with any relevant information (training),
4. discussing with employees how they are to achieve their objective (establishing work perimeters),
5. giving employees the tools necessary to accomplish their objective (handing over authority), and,
6. reviewing the results (enforcing accountability).

The point of delegation is to get something done by someone else, which does not mean simply assigning someone to do a task. Delegation usually also allows employees to choose and implement *how* that task will be done so that a sense of growth and achievement can be created. Delegation lets employees show the world what they are capable of accomplishing - and if the right people are hired and appropriately trained then that should amount to quite a lot. As one entrepreneur questioned for this book put it, whenever an employee screws up it's usually the manager's fault for: 1) hiring or choosing the wrong employee, 2) not training the employee correctly, or, 3) not replacing the employee when it became clear that he or she was not suited for the job.

Taking the Fear out of Delegation

For most managers, delegation is not a choice. Most managers have more work than one person can be expected to perform. Thus the question is not '*should I delegate*?' but rather '*how*?' Many years ago I worked with a man who said that his father taught him to swim by dragging him to a lake and throwing him in. He ended up thrashing around in the water for quite some time before he was finally rescued. Ridiculous? Yes. But for many managers this 'sink or swim' philosophy represents the very essence of how they delegate. Conversely, other managers insist that they can't trust their employees so they don't delegate at all. They then try and do everything themselves while complaining (or bragging) that they're overworked. The result is that employees live up to the misguided reputation placed upon them and aren't used to their full potential. Following are some typical arguments insecure managers use to avoid delegating:

Myth #1: If tasks are routinely delegated to employees they'll gain experience and skills, which will eventually be used against me.

The Reality: Business owners do not lose out when they find and develop good people. Most employees, if they're treated and trained well, will reciprocate in kind.

Myth #2: Because a manager is ultimately responsible for every delegated task, it's easier and safer for a manager to do everything himself or herself.

The Reality: A manager's time is limited. It's usually not possible for a manager to do everything there is to do in a business. Certain tasks and responsibilities *must* be handed to others.

Myth #3: A manager gives up power when delegating - thereby decreasing his or her effectiveness and authority.

The Reality: Delegation increases a manager's influence among employees. This enables most managers to widen their span of control and increase their powerbase.

Myth #4: Delegation demoralizes employees because most managers delegate the most boring tasks to their subordinates and leave the best stuff for themselves.

The Reality: If managers chose to only do the fun tasks, they probably wouldn't also be able to perform the tasks for which they alone are responsible.

Making Delegation Work for You

The following twelve steps should help eliminate most delegation pitfalls:

1. *Don't assign duties because you don't want to perform them*. This includes managerial functions such as providing feedback, reprimanding, hiring/firing, training, motivating, handling sensitive issues, team-building and so on.
2. *Clarify an assignment before it's delegated.* Determine what is being delegated, the results expected, and any time limitations. Unless specific methods must be adhered to, concentrate on the results the employee must achieve.
3. *Choose the right person for the right job* and ensure that he or she has the time and motivation to complete it. Delegation is designed to provide opportunities – not teach employees a lesson or put them in their place. Know who is ready to handle more responsibility as well as how hard this person can be pushed.
4. *Determine work perimeters.* Let employees know *exactly* what they can and cannot do as well as what will make their job easier and any damaging practices they should avoid.
5. *Make delegation a gradual process by giving employees time to gain confidence.* The key is to provide employees with enough rope to do something constructive without having them hang themselves. Can the task be done in stages?
6. *Discuss the task with the employee.* Allow employees to participate in discussions concerning what they are expected to do as well as how much authority they have and the standards by which they'll be judged.
7. *Inform others about the delegation.* Failure to inform other employees of an impending delegation increases the likelihood of conflict and decreases the chance that the delegated task will be done efficiently.
8. *Allow the employee to make as many decisions as possible.* Unless your decisions are significantly better than the employee's, let them use their own. Doing so is highly rewarding and motivating.
9. *Expect a mistake or two.* With appropriate monitoring you should be able to catch mistakes before they get out of hand. Mistakes are a part of *every* learning process and tend to show at the very least that something is being done.
10. *Establish feedback controls.* Regular monitoring will enable important problems or expensive mistakes to be identified at an early stage. Let the employee know that help is available if needed or additional information/training is required (the catchy phrase for this is, *delegate don't abdicate*).
11. *When problems arise, insist on solutions.* Along with ensuring that the employee is not abandoned, it's important that the he or she does not keep running back to you with every problem

encountered. Insist that whenever a problem arises, the employee comes to you with possible solutions rather than just the problem.

12. *Review results and reward good performance.* Let the employee know how he/she is doing. More often than not, people hunger for the chance to show how much they can accomplish. After employees have successfully completed a task, praise any progress and politely address any set-backs so that you can continue to get the most from them and ensure that they'll keep coming back for more.

Taking the Next Step

The security, emotions, and well-being of employees have a direct effect on the service given to paying customers. Unfortunately, employees (and managers) don't always have their priorities straight when it comes to servicing others. In too many businesses, individuals constantly battle against one another - each confident that their input and sense of direction is the most valid. Indeed, one of the greatest challenges of management lies in understanding that *people are motivated for their own reasons, not a manager's reasons*. In other words, ideas, rules, and regulations cannot be implemented unless the employees who have to work with them *will* work with them. Thus, it is dependent on managers to provide employees with incentives for self-motivation. This doesn't mean allowing everyone to go off in different directions. Strong leadership must be shown and it must be emphasized that employees, when they are allowed to regularly make their own decisions, will face the rewards or consequences of what they choose to do. The word for this is *empowerment*.

Employee Empowerment

Employee empowerment is the transfer of *on-going* job-related authority and responsibility from management to workers (in contrast, delegation is *task-oriented* meaning that it usually involves one task or job). Like delegation, empowerment can be used to motivate employees by allowing them to develop their own self-worth and, to some degree, operate autonomously. Its purpose is to keep a business customer driven and flexible. The empowerment process begins by establishing clear goals and guidelines and accepting the fact that when an employee gains power his or her manager is not giving it up.

Empowerment in Action

In Brazil, a country wracked by continuous economic problems, the *Semco* corporation keeps chugging along. *Semco* manufactures (among other things) turn-key biscuit factories, giant marine pumps, and industrial mixers that blend everything from rocket fuel to bubble gum. Before it acquired its fame, *Semco* suffered from the usual rundown of corporate problems. But after collapsing twice from stress-induced illnesses, CEO Ricardo Semler realized that something radical had to be done to change the way he managed his company. In his book, *Maverick*, Semler describes how over a period of several years he gradually handed over power and authority to his employees. This included allowing machine operators to lease *Semco*'s expensive tools and machinery for their own purposes as well as assisting skilled employees to use the company's equipment and materials to set up their own businesses with *Semco* as their leading customer. Company executives at first derided these decisions, predicting that chaos – or worse - would ensue. But Semler thought differently. He began by teaching his workers basic finance and accounting principles. This brought many employees to the previously inconceivable conclusion that the company's profits did not go straight into the bank accounts of top managers. Employees also learned to make their own decisions, quickly realizing that everyone ultimately benefited when the company did. Thus, workers were assured of job security if they prudently solved their own problems, cut costs, increased quality and production, worked together as a team, and weeded out laggards. Incredibly, employees grew so adept at this that they eventually set their own salaries. In effect, they had become the caretakers of the company that employed them and as such they became responsible for its triumphs. Offered a choice between success and failure, they chose success. Give a man a fish, says an age-old philosophy, and he has a meal. Teach him how to fish, and he will feed himself for the rest of his life.

Making Empowerment Work for You

Obviously, empowering a workforce isn't something that can happen overnight. Empowerment is a long process that demands strong leadership, honesty, cooperation, courage, and a commitment to serve from all involved. For employees, this means:

- Handling responsibility while realizing that constant learning and training are a part of every job.
- Understanding that the ownership of problems and solutions belongs to everyone in the business (i.e.: problem prevention and work ownership).
- Accepting the fact that everyone needs to serve others and pull in the same direction.
- Acting on the fact that showing up for work and performing bottom-line duties is not enough – wages are given for *value created*[2].
- Displaying caring, integrity and trust.

For managers, empowerment involves:

- Viewing workers as assets (not expenditures) and recognizing their value.
- Sharing information and providing good training.
- Listening, asking, valuing, and then acting on other's viewpoints and ideas.
- Creating a motivating environment conducive to creativity, participation and innovation.
- Working toward preventing problems, not just battling them.
- Rewarding good performance.
- Displaying caring, integrity, and trust.
- Prudently choosing the right people for the right jobs.
- Ensuring that employees and departments serve each other (pull in the same direction).

Another Example of Empowerment in Action

Years ago, a large retail operation in the United States watched its sales plummet. Managers blamed the company's failure on the faltering economy, yet in the same area of the country a similar sized operation prospered. Investigations later revealed that the first retailer used an employee manual the size and thickness of a phone book. In militant detail, it dictated to employees how to think, dress, behave, and carry out their duties. The second retailer had a different approach. Its employee manual is written on a single 5 x 8 inch card that carries this message:

Welcome to Our Company. We're glad to have you with us.

Our number one goal is to *provide outstanding customer service*.

Set your personal and professional goals high, we have great confidence in your abilities.

Our Rules:

Rule 1. Use your good judgment in all situations

There will be no additional rules.

(Please feel free to approach the department manager, store manager, or division manager
if you have any questions at any time)

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[2] 'Creating value' is a term so overused in business and management literature that it's become a cliché. Creating value means going the extra mile or doing more than what is expected. Far too many people believe that congratulations should be awarded for responsibilities as basic as showing up for work on time, keeping promises and commitments, rectifying mishaps, and so on. In business, however, (as in life) 'points' should not be awarded for common expectations (i.e.: doing what is supposed to be done). Value is therefore created when a person goes beyond the minimum requirements expected of him or her.

Still not convinced that empowerment works? Then answer the following questions:

1. Which of these companies would you rather work for, the first or the second?
2. Do you think that allowing employees to use their own judgment means that management has lost control?

The Importance of Feedback

'If it can't be measured it can't be managed,' a shop owner suggests. She went on to confidently conclude that this statement, or variations of it, could be used to describe almost anything pertaining to management. Most of the entrepreneurs I speak with agree. Prompt, precise measurement, placed in the context of *feedback*, is arguably one of the quickest and cheapest ways to obtain good results. Feedback can be provided at three stages of a work task:

1. Before the task begins
2. During the task
3. At the end of the task

When feedback should be used is contingent upon the situation. However, whether formal or informal, it must remain timely (the 'fresher' it is, the better), honest, simple, and constructive. George Bernard Shaw once said that *the greatest problem in communication is the illusion that it has been accomplished*. Feedback should therefore be given so the recipient hears it without distractions. Feedback should also avoid personal comments as well as situations that are out of the recipient's control. Following are examples of the types of feedback that exist in most work places:

- *The Establishing of 'Norms'* – Norms are acceptable perimeters of behavior set by both management and employees and are either written down in a 'Codes of Conduct' format or left up to employees to decide. Once norms have been established, organizational culture and peer pressure often enforces corrective behavior. Examples include knowing to be quiet in a library (or on a golf course) because everyone else is.
- *Success and Failure Systems* – Most businesses set employee targets and goals. If they're too high, they may result in failure with the subsequent eroding of motivation. If they're too easy, a sense of accomplishment is eluded.
- *Recognition* – If an employee does a task well and is recognized for it, then similar successful behavior can be expected in the future. If no recognition takes place, a message is sent that no one cares. Recognition doesn't necessarily translate into award ceremonies or cash bonuses (although these can be appropriate). Often a few words of thanks are all that's needed.
- *Evaluations* – Employees need to regularly know how they are doing. Evaluations let them know the answer to that question with the added benefit of reminding them that the work they do is being monitored. Yearly or biannual reviews, however, should not become a tedious and banal formality where little or no communication occurs. Evaluations should be a constructive exercise that clears the air and lets all concerned know where they stand, what improvements need to be made, and where they're heading. See Chapter 20 for a reminder of this concept.

Reprimands and Punishment

Sometimes, after all else has failed, a punishment is necessary to correct an employee's behavior. This should be done in private with a cool head. The following should also be considered:

- Punishments treat people equally.
- Punishments are not designed to humiliate people, hold grudges, or accept excuses.
- Punishments must be immune to power plays, whims, and abuse.
- Punishments should be designed to encourage better behavior on the part of the person being

punished. (See Chapter 20 and the section titled '*Dealing with Consistently Poor Performance*'):

Modifying Unacceptable Behavior

On the face of it, Sir Isaac Newton's *Third Law of Motion*, which states that every action brings about an equal and opposite reaction, can also be applied quite readily to humans. This is demonstrated via a simple model of human behavior:

trigger → action → payoff

As this simple diagram suggests, most problems have a cause (a trigger) that sets off an action and ends with some form of payoff. For example, imagine that an employee comes to work late on a day in which he or she was needed to arrive on time. How can a business operator prevent this scenario from happening again? One way is through a process called *behavioral modification* (i.e.: recognizing an action and its payoff; and finding and dealing with the trigger). Following are the five steps behavior modification involves:

1. *Recognize the behavior*. Find out who/what is influenced by the employee's behavior and whether that behavior is worth correcting.
2. *Analyze the behavior. What triggered it?* According to psychologists, *every* human action is preceded by a trigger which is followed by a perceived payoff. When analyzing someone's behavior, dig deep and find the trigger (the cause of the action) and the payoff (the reward the employee thinks he or she receives).
3. *Seek out possible solutions*. Calmly sit down with the person(s) who performed the behavior and get some feedback. Perhaps the trigger was a one-time-only event, or, the employee wasn't aware of the consequences of his or her action and mentioning it is all that's necessary for it to end.
4. *Implement a solution*. People usually don't do things unless there is a payoff. In a calm and rational manner, modify the trigger or payoff by adding a consequence that is either positive or negative (ideally, it should be positive).
5. *Monitor the results*. If the results work, continue along the same lines and look for another solvable problem. If they fail, go back and try something else.

Staying with our example of the employee arriving at work late, perhaps his or her behavior is singular in that it happens rarely. If the employee is late because of a traffic accident (the trigger) then his or her tardiness can be overlooked. If the employee is *always* late because of traffic, his or her behavior may need to be modified (perhaps by getting up earlier). Or perhaps the employee has a personal problem and needs some time off work to sort the problem out - a few days off now may prevent weeks of additional problems later. Either way, someone needs to sit down and discuss the consequences of the employee's actions (provide corrective feedback) so that no payoff is perceived by the employee. He or she may not be aware of the difficulties that were caused and may feel ashamed and embarrassed when it's discovered that everyone had to perform extra duties to cover the employee's lateness. Peer pressure or group 'norms' may then prevent future problems. Or perhaps making the employee perform extra duties as compensation, or docking his or her wages will eliminate the perceived payoff. The solution to the problem depends on the employee, the environment, the situation, and the manager. The aim is to deal with the trigger so that it does not occur again – while ensuring that the corrective action that's taken does not lead to future or compounded problems.

The End Desire

Employees are a reflection of the business they serve. When they have shown that they can handle their jobs, they should be congratulated and, if appropriate, given more responsibility. Only then can you as a manager begin to:

- reduce your workload,

- tap into your workforce,
- create an atmosphere of problem prevention and personal responsibility (work ownership), and,
- provide the ultimate in human motivation.

For a quick reminder of suggestions on how to hire good employees, re-consult Chapter 10 and the section on staffing problems.

Advice from the Pros

- Never stop training employees. The more time that's given to training employees, the less time will be spent punishing them or 'fighting fires'.
- Communicate regularly with the people who work for you. If you don't take the time to talk to your employees about little things that don't matter, they will never approach you with the things that do.
- Establish a set of written employee rules and company policies and put together a thorough training program *before* hiring. If you want employees to perform well they will need to know what the rules are and what is expected of them.
- Always check the backgrounds and references of prospective employees. By law, you may not be able to ask if a candidate has ever been in jail, or has sued a previous employer, or is a pain in the neck to work with, but you can often find the answers to these questions by checking backgrounds or discrepancies.
- To avoid legal problems during an employee interview, concentrate on the specifics of the work the candidate will be expected to perform. Otherwise, you may find yourself being sued for discrimination. Consider giving candidates a skill test to ensure that they can do what you want. Similarly, establish a temporary work trial period during which time it can be determined if the person is right for the job and your business.
- Hire people whose skills and abilities compensate for your weaknesses.
- Salaries and wages are usually the single greatest expense a business incurs. To keep wage costs down, consider offering employees a lower wage coupled with some form of commission for the work they do. That way, the harder they work, the more money they (and your business) will earn.
- Don't try to run a business by hiring cheap labor. As the saying goes, if you pay peanuts, you'll get monkeys.
- Consider arming your sales team with gadgets such as laptops, Blackberries, and/or Treo smart phones. Communication devices with wireless technology allow a business to do more by helping employees respond promptly to customers no matter where they are.
- The simplest, most cost-effective, and most powerful way to motivate employees is to verbally recognize the work they do and thank them for it. Strangely, although this costs nothing, many managers find it impossible to do.
- One of the surveys conducted for this book revealed that more than a few business owners have suffered from employee theft. To add insult to injury, many of the culprits caught stealing were partners or trusted individuals who thought they were entitled to what they took. To avoid having this happen to you, take the following precautions:
    - Conduct regular inventories and pay attention to purchases and shipment numbers.
    - Never let up on your supervisory duties. Periodically review employee work.
    - Ensure employees take holidays. Thieves can't steal while they're away from the job and their absence may reveal discrepancies.
    - Evenly distribute duties amongst your employees or overlap their responsibilities. There is less chance of theft if more then one person is in control of a task or area.

Chapter 31
Ethics and Social Responsibility

I have seen the enemy and he is us

Pogo (Walt Kelly)

- Never relinquish check-signing authority or banking authorization to employees.

A recent study conducted by the *Institute of Business Ethics* revealed that ethical companies that conduct business in a straight-forward manner consistently outperform those that do not. The *Toro Company*, for example, a tractor and lawnmower manufacturer in Minnesota, decided in 1991 to stop fighting lawsuits placed against it by customers who suffered from accidents – *even when the customer caused the accident*. Toro has since settled 1,100 cases (only one of which went to court). As a result, the company's average cost per case dropped from $80,000 to $20,000 – perhaps giving credence to the notion that taking full responsibility for a product is not only good for the soul it's also good for the bottom line (Gray, 2006).

An Introduction to Social Responsibility

When making day-to-day decisions, every entrepreneur chooses to what extent he or she wishes to be responsible to his or her customers as well as the business's local community. The options are as follows:

- *Social Disregard* occurs when a business, for the most part, does whatever it wants, regardless of the consequences.
- *Social Obligation* is met when a business chooses to meet its legal responsibilities and nothing more.
- *Social Responsiveness* occurs when a business changes its policies in regards to social conditions or customer pressures. (For example, pressure from consumer groups was so strong that several tuna manufacturers decided to buy their tuna from fisherman that used dolphin-friendly harvesting methods – which resulted in increased sales.)
- *Social Responsibility* occurs when a business decides to pursue long-term goals that are good for society, thereby hoping to boost the business's bottom line. The *DuPont Corporation*, for example, began manufacturing gunpowder in the 18th century. In the 1900's, weary of its 'death trade', it transformed itself into a chemical and synthetics producer. By 2000, due to increasing environmental concerns, it began converting into a renewable resource business by replacing its petrochemical-based products with clean and sustainable technologies.

Doing Good is Good for Business

Oddly enough, social responsibility is seen in a negative light by to many business stakeholders. The belief is that acts of social responsibility are little more than publicity stunts performed in the hope that they will produce more profit. For example, in an infamous 1970 article published in *The New York Times Magazine*, Nobel Prize-winning economist Milton Friedman stated that shareholders are cheated when businesses spend time, money, and resources in socially responsible ways -- despite the fact that there's plenty of evidence which proves that financial profit and doing the right thing are often complimentary. For example, 57% of the successful business operators studied for this book said that they regularly partake in socially responsible activities and that these activities boosted sales (although none kept records that showed exactly how much their sales increased as a result of their benevolent activities).

To illustrate how socially responsible actions can benefit a small business is to look at the work of legendary entrepreneur Gottlieb Duttweiler. In 1925, Duttweiler began selling fruit and vegetables on the streets of Switzerland from the back of delivery trucks (he named his enterprise *Migros*). For the next 37-years, as Migros grew into a multi-million dollar giant, Duttweiler continuously battled against monopolistic business practices, government authorities, and ruthless cartels, each of whom endeavored to keep food prices artificially high. Duttweiler had an epic struggle on his hands because refusing to sell food at a premium got him into a great deal of trouble. Yet by the time of his death in 1962 he managed to lower the cost of food in Switzerland by 25%. He did this while refusing to draw a salary greater than that paid to his managers and by encouraging his suppliers to do the same. Throughout his life he also adamantly insisted (and proved) that the more money he donated to good causes (charities, education centers, profit-sharing schemes and so on) the more money poured back into his coffers. In fact, he often *complained* that every time he tried to be benevolent purely for the sake of doing good and being responsible, more money always found its way back into his business. By thinking about others Duttweiler showed that socially responsible practices yield dividends.

More Examples of Social Responsibility Leading to Increased Profits

Although being socially responsible can make solid financial sense, many business operators insist that they do it for reasons that are other than financial. For example, the former owner of *Jimmy Bradley's Irish Pub* in Warsaw, Poland insisted that although 10% of his revenues directly result from the contributions he makes to charities, orphanages, and local sports programs, he would continue to donate money to worthy causes even if he didn't experience its financial rewards because that was what he was taught as a boy.

Similarly, in South Africa, *Pick n' Pay* employees have shown solidarity with those less fortunate – including shaving their heads or wearing bandanas as a sign of support to those needing bone marrow transplants – because many of them have experienced the effects of poverty firsthand. In the process they've collected over one million rand in charitable donations, solidified the loyalty of countless clients, helped attract hundreds of new customers, and generated untold amounts of free publicity for Pick n' Pay.

In the United States, socially responsible practices include 'receipt promotions' where small businesses ask customers to save their receipts (as well as those of friends and family) for a prearranged period of time. On the day the receipts are collected, the businesses then donate 1% of the receipt totals to a predetermined charitable cause. Similar schemes are conducted by businesses in the United Kingdom, with proceeds used to buy computers and books for schools (thereby generating enthusiastic involvement from thousands of school children and their families). Additional examples of social responsibility programs include:

- Setting up childcare centers in the workplace for the children of employees (which solidifies employee commitment).
- Offering internship programs to college students (thereby creating lifelong customers).
- Donating time, profits, or products to charities (which is good for publicity).
- Supporting environmental issues.
- Sponsoring local athletic teams, children's programs, and local events (which generates customer support and loyalty as well as free advertising).
- Allowing charities to place collection boxes or literature at your place of work (which allows your business to network while reaching out to its community).
- Assisting employees with their education needs (which builds loyalty).

Unfortunately, despite these inspiring examples the media regularly bombards us with stories that show companies behaving in socially irresponsible and unethical ways. The *Enron* scandals in 2002, for example, resulted in the bankruptcy of the world's seventh largest corporation, the loss of thousands of jobs, and the demise of *Arthur Anderson* - one of the largest, and, up to then, most prestigious accounting firms on the planet. Ironically, according to some analysts, one of the reasons Enron was able to get away with its illegalities for so long was because it publicized the fact that 1% of its profits were given to charitable causes, thereby throwing the public off the scent of its true nature for years.

One of the more infamous examples of social irresponsibility occurred in the tobacco industry, which is still reeling from lawsuits caused by decades of lies. In another example, the terrorist attacks on the 11th of September 2001, resulted in the naming and shaming of hotels that raised their rates knowing that journalists and aid organizations would arrive en mass. Additional examples of unethical behavior include toothpastes that don't whiten teeth in the manner their manufacturers claim; cosmetics that don't roll back the signs of aging or reduce cellulite; and products that kill or injure their users (only to have the companies that produce them deny it or cover it up). Add to this the clandestine polluters, unfair competitors, inside traders, cheaters, greed mongers, and fat cat CEO's who destroy company market share while being rewarded with dismissal packages worth hundreds of millions of dollars and you'd be forgiven for wondering if the words 'business' and 'ethics' are compatible. Cheer up, however, because all is not lost. The reason these businesses are in the news is because they got caught – which is usually what happens to businesses that behave unethically.

Learning Right from Wrong

Ethics is defined as being good, moral, truthful, honest, and sincere. Behaving ethically means acting with integrity, thinking of others, saying what is meant and meaning what is said. Like quality, ethics is an all-encompassing concept in that a business can't be a little bit ethical or somewhat ethical. It either is or it isn't.

Can ethics be learned or taught? Some people say 'yes', others say 'no'; at the very least most of us do know the difference between right and wrong. Yet when many of the world's issues fade into shades of grey it's probably best to rely on what customers consider to be ethical and to act accordingly. In the age of Internet accessibility it's becoming increasingly difficult to hide unethical behavior. This is important because behaving in an ethical manner is an integral part of long-term business success. The operator of the *RemSpecReserve* trading company in Pechersk, Russia, for example, (as well as several other business owners questioned for this book) says that the reputation of his business is his most important asset. Customers nowadays have access to more information and have more choices than ever before so it only makes sense to behave ethically.

Recognized Reasons for Behaving Ethically

- From an *internal customer's* (employee's) standpoint, behaving ethically:
- produces a sense of pride in the workplace (which helps provide motivation),
- sets a good example, and,
- raises an organization's level of perceived fairness.
- From an *external customer's* standpoint, behaving ethically:
- decreases the chances of a business being sued,
- provides another good reason to buy a business's products, and,
- raises everybody's level of responsibility and consciousness.

Trying to Rationalize Unethical Behavior

How do otherwise intelligent people make unethical business decisions? Usually by kidding themselves with one or more of the following justifications:

- *It's only a* **little** *unethical*. Perhaps the rationalization is that 'everybody else is doing it' or the outcome of the decision seems trivial. Either way, it's still boils down to doing something wrong. Eventually, someone will be held accountable for it - particularly if a scapegoat is being sought or someone is seeking ammunition against someone else.

- *No one will find out*. 'Unless it's discovered,' goes the argument, 'it's not really unethical.' Baloney. Little these days goes undetected and very few people are bright enough to cover all their tracks. It may take a while, but someone, someday will probably find out what was done and by whom. If you're stupid enough to do something unethical, you're stupid enough to get caught.
- *It's in everyone's best interest*. This is a very difficult dilemma for many small businesses. For example, if a buyer or shipper demands that a bribe be paid before services will be rendered, what can the business do? Overcoming this situation depends in part on the ability to look beyond short-term gains and address long-term implications.
- *My business (or employees) will stand behind me*. Yeah, right. And so will Santa Claus, the Easter Bunny and the Tooth Fairy.

How to Make an Ethical Decision

Make no mistake, people who act unethically do so at their own peril. When making a decision put yourself and your business through both rounds of the following questions to ensure a good outcome.

Round 1 (questions to ask at a collective level)

1. *Legality*. Is what the business wishes to do legal?
2. *Fairness*. How will the decision's outcome affect the people who are involved with it?
3. *Self-Respect*. Do the people involved in the decision feel good about it and its outcome?
4. *Long-Term Effects*. Short-sighted solutions are rarely an answer. Will the decision create or destroy job security? What are the risks/dangers? How will the business's internal and external environments be affected? Will taking the unethical route save money or will more be lost in the long run?

Round 2 (questions to ask at the individual level)

1. *Purpose*. Do you understand and accept the real reasons or intentions of what is being done?
2. *Perception*. Have you considered the feelings and well-being of those affected by your decision?
3. *Persistence*. Have you remained flexible to other people's viewpoints, yet committed to your own faith and beliefs?
4. *Perspective*. Did you comprehend the whole picture and determine what is really important?
5. *Pride*. Are you happy with your decision? Do you want to be held accountable for it?

An Overall Ethical Litmus Test

If you're ever in doubt as to whether something you wish to do is unethical, ask yourself the following question: 'Would I do this in front of my spouse, or my children, or my friends or employees)?' If the answer is 'no', then you have your answer.

The Bottom Line

Being ethical doesn't cost anything. Being unethical can cost dearly. Don't be fooled into thinking that unethical actions won't be discovered or that a business that turns its back on its community can reach its full potential. Customers aren't stupid and they do end up knowing just about everything that goes on in an organization. It may sound corny, but unethical and unsociable practices make the world poorer in almost every conceivable way. No business gets ahead in the marketplace by thinking selfishly. What goes around comes around and the truth is that if a business is honest and reputable - and is an integral part of its community - its chances of survival will greatly improve. In other words, as one entrepreneur put it, businesses that succeed are usually the ones that are in some way beneficial to everyone that touches them.

Advice from the Pros

- Every enterprise should operate under the concept that customers only want to do business with organizations they can trust.

- Remember that you're in business to sell a product, not your soul.
- Always try to exceed the expectations of customers. Going the extra mile for customers is a practice that will never let you down.
- Make it a habit to ask customers for their feedback and opinions – then listen to what is being said. Your business cannot grow and mature without the viewpoints of others.
- Regardless of the circumstances, always do everything possible to maintain the respect of your employees and paying customers. Treat *everyone* who walks through the door of your business with courtesy.
- Regularly evaluate your business's documents including, brochures, advertising, employee guidelines, etc… to ensure that they're accurate, clear, precise, and professional.

PART IV
STRENGTHENING AND GROWING

Chapter 32
Cooperative Networking

> *By union the smallest states thrive.*
> *By discord the greatest are destroyed*
>
> Sallust

In Thailand, women who compete against one another to make and sell homemade rice noodles, pool their resources and purchase a rice noodle machine which they all share. In Australia, a building designer teams with a rival architectural firm, a renewable energy supply business, and a construction company to create affordable, energy efficient homes. In the United States, a business that produces merchandise made from wood enters into talks with a plastics injection firm to discuss a packaging idea. Across the globe, two Fortune 500 businesses (*Nestle* and *Coca-Cola*) combine their marketing and distribution forces to sell each other's ready-to-drink beverages worldwide. In other markets, Nestle sells *General Mills*' 'Cheerios' cereal and the *Seiko Watch Company* markets *Schick* razors. What in the world is going on?

Cooperating Businesses

With increasing frequency, both large and small businesses are discovering that by joining together with carefully chosen partners each can readily accomplish what was impossible for just one business on its own. This is not a new concept. 42% of the business operators questioned for this book said that they've joined with other businesses (sometimes a competitor) at one time or another in order to maximize their profits. 7% of those who had not said they would like to do so in the near future.

The practice of businesses joining together to achieve a common goal is often referred to as a *cooperative network*. A cooperative network allows a company to work with either a competitor or a seemingly unrelated business (or both) on a temporary or permanent basis. Cooperative networking is similar in principle to *cooperatives*, *co-ops*, or *collectives*, in that all three can be defined as a group of individual entities that join together to undertake an activity for the mutual benefit of all.

Why do competing groups of people or businesses decide to act together? Usually because going it alone requires considerable cost, effort, and risk – all of which can be reduced when others get involved.

In practice, the number of people or businesses involved in business cooperatives can range from two to over 100. In Europe, for example, cooperative networks account for 83% of Dutch agricultural production, 55% of Italian agricultural production, 21% of Spanish healthcare, and over 50% of French banking services. On the European continent alone, companies partaking in cooperative business networks employ more than 4.8 million people; 20% more than the total workforce of large corporations in these same regions. The common goals of these cooperating businesses include:

- joint purchasing projects (purchasing raw materials, expensive machinery, tools, or production facilities, or renewable power sources [such as wind turbines], from which all members can benefit),
- the sharing of resources and skills (pooling information, expertise, or systems to provide member businesses with a complete range of skills, services, and goods),
- identifying and researching market opportunities (finding and tapping into customer bases previously not considered [perhaps by combining one or more products or services with that of another business]),
- combining marketing resources and expertise (promoting the services and products of cooperative partners in advertising schemes, trade shows, and promotions), and,

- combining logistics and operations (offering coordinated deliveries, designing product, service or event 'packages', and improving production capacity by sharing production lines).

Agricultural producers in many countries are a good example of the goals mentioned above. Many have discovered that by joining together they can purchase and share expensive planting and harvesting equipment, decide which crops each member should farm, and even set a fixed price for wholesalers. This prevents having to needlessly compete against other growers, decreases risk in the marketplace, and ensures a fair outcome for each participant. The legendary success and stability of cooperative networks, however, is perhaps the most enticing factor for joining together. Although cooperative networks are not infallible, businesses that cooperate are more apt to satisfy social and entrepreneurial objectives, avoid ethical and legal lapses, and, in general, appear to be more economically vigorous and competitive, especially against larger rivals (Lotti, 2006).

Getting Over the Hurdles

For many small business owners the notion of sharing ideas, equipment, employees, and customers (not to mention discussing problems and forming partnerships with competitors) evokes strong negative emotions. This is particularly true of businesses that view the role of their rivals as an adversarial one. Other businesses, like *K7 Communications* in Hull, England insist that forming alliances is fundamental to survival. Either way, the notion of networking can become more palatable once it's understood that cooperation is not about giving away trade secrets, but rather working with another business in a complimentary way. No company should involve itself in a network if the benefits of joining are outweighed by the costs and risks. The idea is to enhance the competitiveness of each business, reduce costs, create new capital bases, increase advantages of scale, scope, and speed, and open up new markets. By doing so a new way of thinking is required – one that replaces the traditional business mind-set, which states that in order to survive every company must do its own research, product design, marketing, office support, financial functions, production, and management.

What Type of Businesses Prosper Most?

The first and foremost indicator of a successful business network is a common purpose. Even seemingly unrelated businesses can prosper from cooperation if they share the same goal. Consider the *Desert Knowledge Australia* (DKA) network project. The outback of Australia is an enormous area containing thousands of small businesses. Despite the fact that many are hundreds of miles apart they still compete for tourism dollars. In the past this competition resulted in the development of numerous factions and rivalries that often did more harm than good. With the introduction of the DKA network project, however, the combined resources of many businesses have enticed a wider array of customers by introducing 'desert experience' packages. These include inter-linking activities such as sporting events, pub-crawls, heritage trails, eco-tours, and so on, interspersed with restaurant deals, hotel accommodations, and transport services. On their own, each of the businesses that offer these services may lack the skills or resources to promote itself to a wider customer base. Working together, however, they can. Furthermore, almost all of the companies involved now believe that cooperating with other businesses, apart from being practical, is a natural way to do business.

Getting Started

How do networks begin? Two methods seem to dominate. The first method uses a third party such as a business development centre or a chamber of commerce to bring different entities together and propose working in unison. The second involves the introduction of two or more like-minded businesspeople at a social gathering (a newfound personal agreement between long-term acquaintances falls into this category). Either way, the ingredients for success seem to revolve around an established social environment, mutual interests and trust combined with a can-do attitude.

Once the details have been hammered out, the formation of a cooperation agreement is carried out through a variety of methods ranging from contractual agreements to a handshake. Every network has its own unique method.

Advantages and Disadvantages of Business Networks

Of course not every cooperative network deal is filled with sunshine. As with any group endeavor cooperative networks are often susceptible to people problems. For example, a network can collapse when a key player leaves or if members grow too like-minded and become immune to new ideas and new ways of thinking. Similarly, networks can contain participants who take more than they give. Or there might be a general falling out between individuals that results in the taking of sides. It has also been said that some business networks can take a great deal of time to make a simple decision because all participants must be brought to the table to have their say.

Supporters counter these arguments by stating that it's easy to dismiss unproductive or disruptive participants and that the more brains that are brought to the table for the purpose of making a decision the better. Moreover, proponents of cooperative networking state that once decisions are made they're often carried out quicker and with more enthusiasm than those made in big corporations. This is because commitment and involvement tend to be stronger when shared by people with a mutual interest who have reached an agreement together.

When all is said and done, it appears that cooperative business networks operate under much the same principles, and therefore need the same forms of maintenance, as those involved with managing teams. Additional advantages reported by businesses involved in cooperative networks include:

- The establishment of improved communication pathways (if communication pathways are nurtured and encouraged).
- Increased human development and innovation (from the sharing of skills and experiences).
- Better long-range planning and experimentation due to the spreading of financial risk and the fact that most cooperatives are responsible to themselves rather than shareholders who demand nothing more than ever increasing returns on their investment.
- The satisfying of social needs (i.e.: cooperating business do not feel alone).
- An increased feeling of openness and learning, which is fostered by a genuine interest in what other members have to offer.
- Strength in numbers.
- Increased feedback from customers, employees, and participants (usually because cooperating partners demand it).
- Improved problem solving due to in-depth discussion and implementation – particularly when it comes to servicing niche or specialized markets.
- Improved motivation (ample research shows that close personal business ties heighten empathy and increase altruistic behavior). [Batson, 1990]

The Rules of Cooperative Business Networking

Cooperative business networks rely heavily on relationship building. Put another way, the same elements that create and foster human relationships (honesty, communication, straight forwardness, integrity, wisdom, honor, friendship, etc…) appear to be no different from those needed to maintain successful business relationships. Unfortunately, with divorce rates as high as 50% (or more) in many countries, it seems that many people are in the dark when it comes to relationship building. Perhaps the expectation is that good relationships can unfold on their own with no real effort from the parties involved. Or maybe too many wannabe network participants can't be bothered to conduct a basic background check before they enter into a network agreement (which is tantamount to building a relationship on hope rather than reality). Following are a few suggestions designed to help networking efforts produce results:

1. *Be prudent and careful as to whom you wish to do business with*. The last outcome you want is to damage your business by connecting with dishonest brokers or tarnish your reputation through

an association with a less than reputable network partner. Check the backgrounds of proposed cooperative partners and do a background check before shaking hands or signing on a dotted line.

2. *Be a good partner*. Don't adopt a single-minded 'what's in it for me' attitude. Balance the needs of your business against those of your cooperating partners.
3. *Be honest and sincere*. Always try to exceed the expectations of your partners. Never inflate your business's abilities and never steal ideas or clients from cooperative partners.
4. *Take the initiative*. Rather than waiting for partners to come to your aid, be the first to plan meetings, raise issues, tackle problems, and introduce needs.
5. *Stay committed*. Enthusiasm, or the lack of it, is contagious. Keep in touch with your network partners by bringing them referrals and information on a regular basis. Such actions tend to ensure reciprocation in kind.
6. *Be reasonable*. Cooperative business networks are professional relationships and should not be considered as friendships. Keep partners close yet still at 'arm's length'.

Advice from the Pros

- Cooperative business networks are not for everyone, but they should never be ruled out because of ignorance or fear.
- Check the background, attitude, and nature of any prospective business partner as you would a prospective employee.
- Before joining a long-term cooperative business venture test run the partnership by partaking in one or two preliminary projects.
- Trust is everything when it comes to cooperative business networks – and as with any human undertaking, trust is developed when extra effort is voluntarily given and reciprocated.
- Measure up the strengths and weaknesses inherent in a cooperative business network and ensure a solid match is made with your business before rushing into a network agreement
- Like any relationship, a business network relationship cannot be left on its own and requires regular fine-tuning and attention.

Chapter 33
Manufacturing New Products and Services (and Selling Them)

> *If we don't change we don't grow.*
> *If we don't grow, we aren't really living*
>
> Gail Sheehy

The main objective of every business is to maximize profits. This means coping with changes in consumer preferences, keeping up with improvements in production or delivery methods, taking advantage of demographic changes, and staying on top of competitors. It is foolish for a business to load its shelves, website or catalogue with the same items year after year and expect the same sales. Yes, it's possible (and often necessary) to have a line of products that can be relied upon to produce a steady stream of profits year in and year out. Sooner or later, however, the old standbys may stop producing. With shelf space at a premium and customer preferences constantly changing, what can a business do to maximize its sales potential?

The answer is to stay on top of trends and changes by providing new products and services. And although the success rate for new products is often dismal, research and planning can improve the chances of success.

Where do new product ideas come from? According to researchers, on average, about 30% come directly from customers (Reese, 1992). An additional 30% are derived from observing competitors. The remaining 40% are gathered from sales people, suppliers, and distributors (Czinkota, 1990). Refer to the end of Chapter 3 for a reminder as to where the entrepreneurs questioned for this book get most of their new product and service ideas.

Manufacturing a New Product

The decision to manufacture a new product should not be taken lightly. The amount of time, money, and manpower needed to create a new product demands that significant research be conducted to ensure that a costly mistake is not made. The 12 steps below depict the stages of manufacturing a new product:

1. *Define and record customer requirements*. Who are the potential buyers of the proposed product and where are they located? How many of them are there and how much of the new product might they buy? Thorough investigations into these questions have the potential to reveal as many opportunities as pitfalls.
2. *Specify the product*. Does it need to meet governmental safety codes? Does it require additional (or wholly different) distribution channels or production methods? Will customers want to see a distinct advantage with an (untried) version of the product to convince them to switch from a competitor's version?
3. *List and describe your business's capabilities*. If the strength of your business lies in molding plastics you will probably want to use this material as a base component. Is this viable? How many units must be sold to cover your expenses? How many units of the new product can your current production system produce?
4. *Storyboard the process. Involve every employee and/or department* (i.e.: write out and describe every required step). Brainstorm with employees and ask for opinions. What will each employee or department have to contribute to ensure success? What will the costs be?
5. *Begin engineering drawings and specifications*. A workable design is needed from which the

product can be produced. Do the specifications conform to customer, legal, and/or ISO 9001 requirements? Can the product be designed in a way that makes it less harmful to the environment? Can the product be designed in a way that enables it to be taken apart quickly so that its components can be recycled or remanufactured? This may save a lot of money – particularly if your business entices customers to return used products for re-manufacturing purposes.

6. *Define a method for manufacturing the product*. Perhaps a prototype should be built. If so, do it. Involve the input of as many employees as possible. Building a prototype provides valuable lessons for all concerned. Use only the methods and machinery available in your business. Does making the product conform to initial designs and processes? What changes have to be made?
7. *Develop a list of needed materials (and overheads) and determine total costs*. Will manufacturing the product on a mass scale be economically viable? How long will the manufacturing process take? Will the length of time meet customer expectations?
8. *Evaluate how manufacturing the new product will fit in with regular manufacturing tasks*. Will the new product adversely effect other commitments? Will it tie up needed machinery or equipment? Will it, or its components, take up too much warehouse or factory space?
9. *Re-evaluate the capacity of your business and again determine if the product can be produced in a timely fashion*. Can employees be adequately trained to comply with all needed processes, production methods, and sales techniques? Will the business be able to meet the demands of its customers while dealing with the new product? Will shipment dates be met?
10. *Re-evaluate profits and losses*. Can the manufacturing process be made more efficient? Can it be made less wasteful? Can raw materials be derived from inexpensive renewable resources rather than virgin ones? How can the product's energy needs be reduced?
11. *Review the entire project*. Take corrective actions as needed. Ensure every employee or department remains involved. Then determine if manufacturing the product is viable. If it is, continue to improve and refine every stage of production while the sales/marketing campaign begins.
12. *Monitor and evaluate all processes – including sales progress*. Is everything on track? Do any problems exist? What is being done to rectify any mishaps?

Product Accessibility (Getting the Word Out): Push versus Pull Strategies

Generally speaking, there are two ways manufacturers get their products to the marketplace. The first is called a *push strategy*. A push strategy concentrates on 'pushing' a product through common distribution channels until it's made available to the public. In other words, the product is pitched to wholesalers or retailers who then push the product onto customers. The down-side to this strategy is that most retailers have limited shelf space in their stores and will probably not want to experiment with an untested product. Incentives may therefore have to be offered to persuade retailers to get on board.

A *pull strategy* involves advertising directly at consumers in the hope that they'll ask for it at the places they shop. Retailers then have little choice but to provide what customers demand. Small retail operators should be on the lookout for manufacturers that use a pull strategy with their products. This makes it possible to 'ride the wave' of advertising done at someone else's expense. (See Chapter 18 for suggestions on how these two strategies can be applied in a small business.)

For Retailers: Choosing the Best Products to Sell

Granted it's difficult, if not impossible, for a retail business that sells hundreds (or thousands) of products to conduct in-depth research on all the items it sells. The amount of money a product costs to sell is therefore a good way to determine the amount of research that should be conducted. Since big-ticket items require more capital investment, entrepreneurs should be certain that sufficient demand exists before investing in an expensive new product line. Conversely, products with few costs, or those that are guaranteed by a supplier, can be safely tested through trial and error (see Chapters 5 and 6).

If your business is considering offering a new product, consider the following factors before making a purchase:

- *Promotion Costs* include advertising expenses, the distribution of samples, public demonstrations, updating the company website, and so on. Without some form of promotional support any product, no matter how wonderful, can end up sitting, unsold, on a rack or shelf. Obviously, every business strives to reduce its expenses, but one expense that should never be cut is advertising. As a rule, if a business can't afford to advertise a product then it can't afford to stock the product.
- *Distribution Channels*. Will the new product use the same distribution channels your business currently utilizes (i.e.: the same sales people, the same delivery method and schedule, the same storage system, and so on)? Any changes that have to be made may mean additional expenses and a lower profit margin.
- *Capacity*. If the product proves to be successful, can your business cope? Can you ensure that stocks will remain plentiful? Or will you have to turn away disappointed customers?
- *Consumables*. Selling goods that customers must replace on a regular basis is an excellent way to facilitate long-term success. How long is the new product designed to last before customers seek a replacement?
- *Demographics (and Demand)*. Who buys the product? Who actually uses it? Are there enough buyers *and* users in your area to justify investing in a new product line? This can be difficult to determine if the purchasers of the product are not the same as the users. For example, if children use the product you'll need to know if parents can afford it as well as if the number of children in your area is increasing or decreasing.
- *Timing*. Being in the right place at the right time with the right merchandise is a fundamental of business success. Businesses that order new products should set up a solid customer support base before the novelty, uniqueness, or shelf life of a trendy product wears off.
- *Profit Margins*. Consider the expense of direct costs, indirect costs, and overheads. Is the profit potential good? For example, if an electronic gadget costs $5 and your business can sell ten per day with a profit margin of 60 cents, will a $6 total profit cover the product's share of expenses?
- *Training*. Staff will have to be aware of the product and its uses *before* it hits the shelves. Can your business provide adequate employee training?

Stocking New Products: Determining if a Good Decision Has Been Made

The following suggestions can help determine if a change should be made after a new product has been put into play. Keep in mind that it *is* possible to have a spectacular finish after a bad start *if* you're willing to admit to mistakes and correct them.

- *Examine daily cash register receipts*. Cash registers can be easily programmed to keep tabs on the amount and type of products sold. Use this information to determine if the product is selling well. If not, find out why. Valuable shelf space should not contain unprofitable products.
- *Ask customers for feedback*. Don't second guess what customers think. Maintaining good communication with paying customers may reveal complimentary products that can be sold or improved ways to sell what is already on sale.
- *Take advantage of posters, display units, and other promotional materials offered by suppliers and manufacturers*. These items are professional looking (which adds credibility and pizzazz) and may provide that extra bit of attention new products need to generate sales.
- *Ask suppliers, manufacturers, and/or distributors of your products for information on improving sales*.

Professional suggestions, based on years of experience and research, can prove invaluable.

- *Always strive to maintain good relations with suppliers/providers*. This includes paying bills on time, treating sales representatives with respect, and keeping communication channels open. (see Chapter 8)

Advice from the Pros

- Make certain that the product or service you want to sell is something your customers want to buy.
- Consider seeking advice from an experienced professional(s) before manufacturing a new product. The money spent on getting things right the first time may be far less than that which is wasted on mistakes.
- For manufacturing businesses, ensure that a reliable labor pool is available from which a new product can be produced. In some countries or regions, finding people who will perform both menial and skilled work is becoming increasingly difficult. Solve this problem *before* getting started.
- By reducing menial tasks with automated machines, a small manufacturing business can save money and pay higher wages, which can help retain a skilled workforce.
- If your business is having difficulty trying to show that your products are unique and special, consider making the products more special by offering price reductions, coupons, discounts, and so on.
- Never underestimate the importance of the 'Seven P's of Marketing' in product promotions. (See Chapter 24)

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Chapter 34
Expanding into Foreign Markets

> *He who is different from me does not impoverish me – he enriches me. No man should seek to hear his own echo, or find his own reflection…*
>
> Antoine de Saint-Exupery

> *There is nothing so easy to learn as experience and nothing so hard to apply*
>
> Josh Billings

Expanding into a foreign market is not a panacea. Selling products in a foreign country can be misleadingly similar to expanding into a new market at home, yet they are not the same. The risks and preparation involved, for example, are far greater, which can render foreign trade unfeasible when compared against potential profits. And a company struggling to survive at home that is looking to conquer overseas markets as a remedy is unlikely to be able to take on and beat experienced overseas competitors. This is because the risks involved in doing business in a foreign country include:

- Bureaucracy,
- Corruption,
- Unstable governments and markets,
- High foreign country debt and/or inflation,
- High unemployment (which can lower a nation's ability to buy your products),
- Exchange rate volatility,
- Foreign government entry requirements (which can include the degree of business control or ownership allocated to foreigners; hiring and firing policies; the percentage of the business's output allowed to be exported; and the amount of profits that can be taken from the country),
- Marketing mix adaptations (e.g.: product modifications; differences in production methods or quality requirements; distribution channel differences; and advertising differences),
- War or regional conflicts, and,
- Terrorism, kidnapping, and hostage-taking (Mexico, for example, averages around 8,000 abductions per year, a number that includes the taking of executives from foreign companies).

Why Go International?

With so many problems and challenges involved with doing business in foreign countries the obvious question is why go abroad in the first place? The main reasons include:

- Greater profit potential (new markets).
- Better raw material access (being closer to raw materials can lead to lower production costs).
- Financial capital opportunities (having increased access to financial resources or financial incentives).
- Lower labor costs.
- Larger labor pools.

Before Going Abroad

Doing business in another country requires a *market-led* approach (see www.tradecompas.com). Studies show that the reason why so many businesses fail when venturing overseas is because they didn't check to see if the market is viable. Apparently, a large proportion of sales from foreign buyers are nothing more than one-time-only orders. This situation is described as 'passive exporting' and should not be associated with long-term customer interest. Therefore, before making a leap into a foreign market, the following questions need addressing:

- Can you learn the preferences and buying behavior of customers in the foreign market?
- Can your business offer competitively attractive products?
- Will you be able to adapt to other business cultures and deal with foreign nationals?
- Do you, or your employees, have international experience?
- Have you considered the impact of foreign regulations, standards, and political environments?
- Can your bank and financial department handle foreign currency transactions?

Classifying Your Product

Before a product (or service) can be sold in another country its classification must be determined. This not only helps sell the product it also helps determine what, if any, tariffs apply. In the United States, most products and services are classified under the *North American Industry Classification System* (NAICS) or the *Standard Industrial Classification* (SIC) system (www.census.gov). In Europe, the *Classification of Products by Activity* (CPA) is used. In other countries, businesses and products are classified under the *Standard International Trade Classification* system (SITC) or the *Harmonized Commodity Description and Coding System* (also known as the *Harmonized System*) (www.cbsa.gc.ca/general/publications/hcdcs-e.html).

Getting Help

Don't go it alone in another country. To help guide your way through the complexities of international trading, contact the following agencies (most of which offer free services) for advice before you take the plunge:

- *Local or State Governments*. Most large cities (or regions) have an export office or international trading office, a department of industry, a department of commerce, a department of economic development, or a similar trade department. Check the Internet or a local phone book from the area. Local trade centers and port authorities provide additional information avenues.
- *Federal Governments*. Every country has a centralized department of trade or commerce that provides trading information and advice to both big and small businesses. Some of these departments are split into sections that specialize in specific regions of the world. For example, in the USA contact the *Trade Information Center* (www.trade.gov) or the *Small Business Foundation of America* for information regarding shipping goods to, or doing business in, another country.
- Foreign Governments. Foreign embassies and consulates are excellent sources of information regarding the how, why, when, and where of trading with another country. Most embassies or consulates employ economic development officers whose job is to assist companies that want to do business in their home nations. Check the Internet for details. Additional sources for trade information include international trade groups between countries (such as the British-Polish Chamber of Commerce, the Belgian-American Chamber of Commerce, etc...). Many of these groups are listed in the Federation of International Trade Associations (www.fita.org)..

Establishing Entry Mode

Once a business has decided that it's safe and reasonable to venture into a foreign market three choices exist:

1. *Exporting*

The simplest way for a business to begin selling overseas is to ship products directly to a retailer or intermediary in another country. This method does not require an overseas sales force. Foreign retailers and intermediaries bring regional know-how and skills with their jobs, thereby ensuring, at least in theory, that fewer mistakes are made. Types of export services that exist for small-businesses include:

- *Commissioned agents or sales representatives*. Professional agents act as brokers in finding buyers and selling products (usually on a commission basis). Keep in mind, however, that these folks usually don't collect shipments from customs, fill out bureaucratic paperwork, or undertake product orders.
- *Export management companies* usually work on a commission basis while acting like an extension of the business they represent. This means that they'll represent a product (and, perhaps, the products of other companies) as well as take care of the entire export/entry process. Services often include giving advice on legalities, handling logistics (invoices, insurance, customs, documentation...), checking distribution channels, arranging finance, conducting market research, and doing advertising and marketing. Keep in mind, however, that as with any export service, if an export management company takes title to a product (i.e.: assumes responsibility for it while it's overseas) it may mark up the price as part of its compensation package. Be certain your price estimates (especially when conducting initial market research) take this into consideration.
- *Export trade companies* work much like export management companies in that they handle orders, shipments, and invoices - thereby exerting some control over the cost and service quality of a product. Keep in mind, however, that most export trade companies will not perform marketing or advertising.

2. *Joint Venturing*

Another mode of product entry is called joint venturing, which involves joining with a foreign company to produce or market a product. Types of joint venturing include:

- *Licensing (Franchising)*. For a fee or royalty, a foreign company (the licensee) buys the right to use a company's manufacturing processes, trademarks, patents, trade secrets, or other item of value. *Coca-Cola* operates in this way. *McDonald's* is probably the best known example. Licensing (or franchising) greatly reduces the risk of starting from scratch. Unfortunately, when the license runs out, the licensing business may find that it has created a competitor.
- *Contract Manufacturing*. When a business contracts with a foreign manufacturer to produce a product the result is called contract manufacturing. This practice reduces financial risk and may set the stage for the forming of a later partnership with the manufacturer (it can also involve buying out the manufacturer altogether). The down side is that by handing over manufacturing responsibilities to another business some control over manufacturing processes will be lost - which can translate into lower quality.
- *Management Contracting* is the term used to describe the practice of a company supplying management know-how to a foreign company. Many big hotel chains, including *Hilton Hote*ls, use this strategy. Since good managers are a scarce commodity, however, it may be wise to keep yours at home.
- *Joint Ownership* is when a company joins forces with foreign investors to create a local business in which each shares ownership and control. This may be necessary for economic or political reasons. For example, sometimes, foreign governments require joint ownership as a condition for entry. Keep in mind that conflicts can and do arise over management, investment, marketing, and other policies when different owners are involved in a project.

3. *Direct Investment*

Direct investment involves entering a foreign market by developing foreign-based assembly or manufacturing sites. This is usually the route taken after a significant amount of experience in exporting has been gained and the market is seen as stable and growing. Most of the disadvantages of setting up a company or factory in another country revolve around the out-of-country risk factors described at the beginning of this chapter. Advantages can include low labor or raw material costs; incentives from foreign governments; freight savings; the improving of the company's image through job creation; the forming of relationships with foreign governments, suppliers, distributors and customers; and greater control over investment and manufacturing/marketing policies.

Developing an Overseas Strategic Marketing Plan

Very few products succeed with a 'one size fits all' marketing strategy. To maximize sales overseas, foreign market conditions must be thoroughly understood, the marketing mix must be adapted to local conditions, and cultural sensitivities may need to be addressed. Only then can a decision be made as to whether or not marketing efforts should be *standardized* or *adapted*.

1. *Standardized Marketing Mix*. This is the cheapest method of international marketing. Standardized approaches use the same product, advertising, distribution channels, and other elements of the marketing mix in all international markets. Before following a standardized route, however the following issues must be considered:

- *The identification of similar needs and preferences*. Every national culture has its differences. That being said, the wants and needs of customers can be identical. Learn the culture and idiosyncrasies of the region where you wish to do business before making a mistake trying to be all things to all people.
- *Consumer mobility*. An increasing number of people travel globally every year. Companies that sell their products to tourists and travelers must therefore ensure that the products they sell retain their distinctive characteristics (particularly colors and logos) so they can be easily recognizable. But see below…
- *Economies of scale*. Most companies prefer a standardized marketing approach because of the cost advantages of managing, producing, shipping, and advertising similar products in bulk (which leads to higher profit margins). Note, however, that a product, its packaging, and even its size and colors must suit the region and people where it is sold. In some countries, for example, the color white suggests purity and peace. In others, white represents death. And Asian countries (as well as some European nations) do not look favorably upon large food portions, big product packages, and Americanized clothing sizes.
- *Technological feasibility*. When shipping to larger markets, it's usually a good idea to ensure that production processes are as simple and standardized as possible. This means that screws and bolts fit international tool sizes and basic components can be easily replaced with local varieties.

2. A second way to sell overseas is through an *Adapted Marketing Mix*, which matches the numerous elements of the marketing mix according to a targeted market. Since customers vary according to geography, demographics, economics, and cultural characteristics, the idea is to match local idiosyncrasies with the uniqueness of a product. Not doing so can lead to problems. For example, in the 1980's, German and American machine tool manufacturers saw their customer numbers decline because they refused to adapt to changing customer needs – a concept known as '*cultural arrogance*' or '*self reference criterion*' (i.e.: selling a product to foreigners exactly the same way the product is sold at home). Making and marketing a product differently for different markets obviously carries more costs, but by targeting a specific group and catering to its distinct needs a product can become more appealing. Adapted marketing mix issues include:

- *Understanding diversity*. Knowing the differences (cultural or otherwise) practiced in the region where you wish to do business and formulating a plan to capitalize on those differences.

- *Product adaptation*. Changing a product to meet local conditions. For example, several computer companies make 20 different computer keyboards to suit different language markets.
- *Product Invention* is the process of creating something new or innovating something already in existence to better suit a foreign market.

Advice from the Pros

- Relationships are everything in business – particularly those that sell products overseas and must rely on the trust, integrity, and skills of an individual who is perhaps thousands of miles away and who cannot be easily supervised. Work on building solid relationships before making doing business in a foreign country.
- If you're looking to expand, look into exporting. Once you start down the exporting road (and develop a knack for it) the opportunities are limitless.
- Many governments are keen to encourage small businesses to export in order to lower balance-of-trade deficits (this is when more imports come in to a country than exports go out). Check your nation's department of trade or commerce for grants or other incentives that can help your business get started.
- Don't forget to fully cover your insurance needs before venturing into another country.

Chapter 35
Sustainability: The New Frontier

What I stand for is what I stand on.

Wendell Berry

The hottest spot in Hell is reserved for those who in time of crisis remain neutral

Dante

Few subjects, it seems, are as polarizing or provocative as those that attempt to explain the condition of the Earth's present situation. To some people our planet appears to be undergoing drastic changes. To others this is either not true or no big deal. Regardless of which side you're on, legendary investor Warren Buffet seems to nail the issue on the head when he says that this, '…is a problem that once it manifests itself it's a little too late to do something about. You really have to build the ark before the rain comes in this case' (Guerrera, 2007). What Mr. Buffet is referring to are the effects of rampant, unchecked resource-use, waste, pollution, and other forms of environmental degradation, a few of which are briefly mentioned in this chapter.

First, the Good News: Sustainability and the Circular Economy

Of the many solutions designed to tackle resource-depletion, waste accumulation, pollution and other contributory issues, two of the most basic are *sustainability* (often defined as 'the capacity to continue into the long-term') and *circular economics*, which is defined as 'repeatedly re-using resource materials and their molecules in a regenerative system to avoid the need for replacement resources' (Geissdoerfer, Savaget, et al, 2016). *Waste elimination* and *waste prevention* are integral to these concepts when they are applied in business.

Examples include a subsidiary of the *DuPont* corporation, which achieved a goal of zero-waste to landfill, generated $2.2-billion in new revenue, and reduced production costs by over $400,000. Additional examples include *General Electric*, which reduced its annual costs by $100-million, generated an increase of $17-billion in yearly revenues, and eliminated 30% of its greenhouse gas emissions in the process. And the world's largest manufacturer of carpet tiles (*Interface*) which pledged to eliminate waste and use its old products to make new products; during the first five years of its commitment to sustainability, Interface tripled its revenues, doubled its profits, and doubled employment while watching its stock price increase 550%. Keep in mind that results such as these are by no means limited to big business. However, before delving further into the results that astute businesses are achieving, let's briefly examine the situations that are prompting them.

The Bad News… Starting with Population Increases

In 1950, the number of people on Earth amounted to around two billion. Today the number is 6.5-billion. By 2050 this will increase to somewhere between eight and ten billion (currently, 10,000 people are born every hour). To add to this, the world is becoming more affluent (which means people are consuming more) and also living longer (which results in even more consumption). In other words, an unprecedented and growing number of people are competing for the world's limited resources. Overpopulation and resource consumption not only leads to a deterioration of the Earth, it also generates an escalation of waste and toxins poured into the air, ground, and water. Traditionally, people have always been able to move to new habitats when old locations became unsuitable because of waste build-up or resource depletion, however, today there are fewer such places to which people can move. Modern civilization now generates three times more garbage than it did in 1960. On average, most people in the USA generate 4.4 pounds (2 kilos) of garbage per day, an amount that is projected to rise to 4.8 pounds (2.2 kilos) in the near future. And the number of developing countries that want to grow their economies to the same level enjoyed by those in the West (which they have every right to do) makes this scenario even more problematic.

Carbon Dioxide

The Earth's atmosphere contains 40% more carbon dioxide today than it did at the start of the industrial age. This is not guesswork. Although carbon dioxide is odorless, tasteless, and invisible (which makes it as invidious as it is easy to ignore), its levels can be accurately measured by examining isotopes trapped in ice deposits that have been forming in the arctic for over 650,000 thousand years. Through the study of these deposits it has been revealed that in as little as 60-years carbon dioxide levels have increased far above that of any other time period. Perhaps more troubling is that temperature increases, which can also be accurately measured from ice deposits, have risen proportionately. Today, over 90% of scientists looking into this matter (on an independent basis) agree that the two are related and that human activity is responsible for the current increase of carbon dioxide and other greenhouse gases. Most of these same scientists also agree that the buildup of carbon dioxide is a result of the following five culprits:

- Electricity production,
- Heating,
- Transportation,
- Agriculture, and,
- Deforestation and Forest Degradation

After looking into the climate change issue in 2006, the UK government concluded that every ton of carbon dioxide created causes around $120 of economic damage and that the average person produces nine tons of CO2 per year through energy consumption alone. To put this into perspective, property damage caused by natural disasters is rising an average of 10% per year due to shifts in weather patterns – a fact that underscores a report by the *Lloyd's of London* insurance company, which states that unless every insurance company starts to make better use of global warming predictions the entire industry could collapse (Vencat, 2007). In some parts of the world whole regions and lakes are drying up while in other areas catastrophic flooding is increasing. Just as unsettling, areas with once steady climates are experiencing drastic changes in temperature. One of the more in-depth weather studies conducted revealed that the length of heat waves in Europe has doubled and their frequency has nearly tripled (Begley, 2007). This is not to be taken lightly, especially when one takes into account that heat waves, on average (particularly in developed countries), kill more people than any other form of natural disaster. Unfortunately, since the victims are usually poor and there's no catastrophic property damage for the media to fixate upon, heat waves don't generate the same attention as floods, earthquakes, and storms (Carlson, 2006). Meanwhile, the frequency of tornadoes has doubled compared to the last century and snowpack, whose water is crucial to both cities and farms, is diminishing. These changes have already damaged several economies dependent on agriculture and have resulted in higher food prices, higher fuel costs, and higher insurance premiums. Between 1981 and 2002, for example, increasing cereal crop losses resulting from higher temperatures amounted to $5-billion (Walsh, 2007) and in 2007 Canada (the world's second biggest wheat producer) recorded its smallest harvest ever as a result of drought. Across the Atlantic, European wheat production fell by 40% due to flooding rains the same year. Further north, ice caps and glaciers are melting at an unprecedented pace and the oceans are both rising and becoming more acidic (due to the absorption of CO2). Equally as worrying, open water was recently discovered at the North Pole for the very first time – a sign that warming trends could discharge tons of carbon and methane gas frozen in northern permafrost regions as well as the freezing sludge at the bottom of both poles (methane is 20-times more potent than carbon dioxide and nearly a third of the world's supply of these gases are trapped in permafrost soil).

Agriculture Woes

Obviously, an increasing human population means that food production must also increase in coordination with action to eliminate food waste. Yet according to agriculture researchers, one-third of the world's croplands are losing topsoil at a rate that nature can't replace (Hawken, et al, 1999). As a result, too much commercial agriculture, heavily dependent on chemicals, fertilizers, and pesticides, is either stagnating or experiencing diminishing returns. Too many farmed areas are steadily requiring more input and effort to maintain their crop yields, which means more fertilizers and pesticides are being dumped onto soil that has, in many cases, been burned into a substance that resembles little more than dust clumps. The chemicals being used then wash away into nearby streams and rivers. For example, off the Louisiana coast an area 7,000 square miles in diameter (11,265 sq. kilometers) is now completely dead due to the run off of nitrates that seep into the Mississippi River from farmlands. Meanwhile, to offset diminishing returns, more forests are being cleared to create larger crop fields and grazing land (the latter of which already takes up a quarter of the world's land). Add to this the fact that half of the world's range lands have deteriorated into desert, water tables have been falling for years, and the world's 18 major oceanic fisheries have either reached or exceeded maximum sustainable yields (Hart, 2005) and deterioration in food production could become even more problematic.

The livestock industry appears to be doing no better. Consider the 1,000 or more cattle penned in at the average factory farm and note that each beef cow (which requires 100 pounds of feed for every ten pounds [4.5 kilos] of beef it produces) generates the same amount of feces and urine as 16 adult humans. Moreover, animal waste tends to be 25 to 100 times more concentrated than human waste and is laden with antibiotics and artificial hormones to speed the growth of livestock - a practice widely believed to contribute to resistant strains of bacteria. The US *1997 Census of Agriculture* reported that the amount of animal waste produced by hogs, cattle, poultry, and sheep amounts to 220-billion gallons (833-billion liters) per year, enough to fill 330,000 Olympic-sized swimming pools and which is too much for farmers to use on their fields as fertilizer without killing their crops (Knoblauch, 2007). So where is the excess waste put? Usually into specially created 'sewage lagoons', which can be an accident waiting to happen. In 1995, for example, an eight-acre pig-waste lagoon in North Carolina broke its banks and spilled millions of gallons of waste into a nearby river killing ten million fish and closing down more than 300,000 acres of wetlands to shell fishing.

Disease, Toxins, and Health Problems

Recently, the *World Health Organization* concluded that because of our waste-producing lifestyles, our ability to travel, and climate change, infectious diseases are spreading faster than at any other time in history. For example, 39 new diseases (e.g.: SARS, Lyme disease, Ebola virus, Lassa fever, etc), most of which are life-threatening, have emerged onto the world stage since 1967. And a 2001 survey of nearly 600 children found that perfluorooctanoic acid – a substance found in food wrap, Teflon, and stain-resistant fabric coatings – is swirling in the blood of 96% of the children it sampled (Zandonella, 2005). This substance is one of dozens of toxins now found as a matter of course in most human bodies (Kamrin, 2003). Traces of arsenic, mercury, and benzene also show up regularly alongside heavy metal compounds such as lead, cadmium, zinc, chromium, and copper. In river sediments and estuaries these substances are equally as ubiquitous. Increasing levels of polycyclic aromatic hydrocarbons (PAH's), polychlorinated biphenyls (PCB's), and pesticides merely add to the problem (each of which can take hundreds of years to degrade) (EPA, 2006). Residues from the billions of doses of prescription drugs humans consume are also being found along shorelines and in wetlands. Swallowed to combat cancer, pain, depression, and other ailments, most medications do not disappear into patients or animals where they harmlessly disappear. Instead, they work their way into the environment (Johns Hopkins University, 2002). Researchers in Canada, for example, found a dozen different toxic drugs in water samples taken from the St. Lawrence River in Quebec, while across the border a vast array of pharmaceuticals (including antibiotics, anti-convulsants, mood stabilizers, and sex hormones) have been found in the drinking water supplies of 41-million Americans (Associated Press, 2008).

Life-threatening health dangers appear to be on the rise for plant and animal life as well (Pappas 2016 & Fox-Skelly, 2017). Some scientists believe there may be a link between an upsurge in animal viruses that used to be considered rare (e.g.: bird flu) and changes in global temperatures. Other diseases and parasites are ravaging trout stocks in Europe, decimating shellfish, and killing off plant species (Margolis, 2006). Further studies have revealed that chytridomycosis (a waterborne fungus) is wiping out the world's frog population - a worrying sign that the natural order of the world may be changing – and in North America alone, 25% to 35% of the continent's honeybees have disappeared (honeybees pollinate 30% of America's food crop and account for over $15-billion of its economy). One explanation as to why so many species are suffering or disappearing – apart from the stress induced by chemicals, pollution, and climate change - is that environmental shifts are causing micro-predators to flourish faster than the species they prey upon can evolve natural defense mechanisms. As one environmentalist told me, 'We seem to forget that our actions, particularly when duplicated hundreds of millions of times, result in big consequences – and these consequences often appear quicker than we anticipate.' A few years ago, for example, it was predicted that one third of the world's population would lack access to clean water by the year 2025. That prediction came true 20 years early.

Economic Troubles

As early as 30-years ago it was deduced that an industrial system with open linear material flows (one that takes in materials and energy, creates products, and then throws most of what it creates away) probably cannot continue indefinitely (Frosch, 1997). Indeed, there is strong evidence to suggest that the $40-trillion world economy, which is based on a linear system, is in trouble (Palley, 2006). One aspect of the problem is that the current job market cannot grow fast enough to provide opportunities for the tens of millions of young people who wish to join the labor force every year – a situation that many believe will continue to contribute to violence and terrorism. In the meantime, the gap between rich and poor is widening at an alarming rate. Since 1960, the world's wealthiest individuals have increased their control over global production by 15% (the rich currently control 85% of global GDP) while the poorest have lost more than half of the 2.3% share they once had. Today, large multi-national corporations account for a quarter of the world's global economic activity while employing less than 1% of its labor force. Moreover, most of the world's profits are produced by focusing on only the top third of the global economic pyramid (i.e.: the richest consumers) leaving two-thirds of humanity out of the world's economic loop (Hart, 2005).

Opportunities

According to Sir Nicholas Stern, former head of the UK government's *Economics Service*, the costs of taking action are much smaller than the costs of business-as-usual by a factor of between 5 and 20. In other words, companies that don't act now will pay dearly later because, it is far better to take action now than to take the more costly route and re-design, re-tool, and re-think later. The *Intergovernmental Panel on Climate Change* (IPCC), set up under the auspices of the *United Nations*, concluded that collectively, the cost of reducing climate change will amount to between .12% and .3% of global GDP (IPCC, 2007). The challenge is that *everyone* must get involved. These changes include: (1) having businesses convert to efficient, sustainable, less wasteful practices, and, (2) reducing the ever-widening distance between industry and humanity (the wasting of people) by bringing into the fold the over four billion people on earth whose needs are currently not being met.

Countless opportunities, substantial cost savings, and greater profits lie in wait for businesses willing and able to take corrective action. Unfortunately, the basis behind many of the arguments behind inaction is that change is *always* and *only* an expense. In contrast, 'bottom-up' entrepreneurial models take into account the added savings (and potential earnings) that competition, new practices, and new technologies can produce. For example, before the passage of the American *Clean Air Act Amendments* of 1990, 'top down' theorists predicted that meeting sulfur emission reduction targets would cost businesses $1,500 (or more) per ton of emissions (DeCanio, 1997). Instead, sulfur allowances traded at less than $100 per ton by 1996 and fell to $66 by 1999. Sulfur emissions subsequently dropped across the USA by 37% and electricity rates, which were predicted to rise to astronomical heights (power plants are one of the chief creators of sulfur pollution), *fell* by one-eighth. Ironically, the reason why the worst case scenarios never materialized was because by making waste more expensive the onus was put on power companies to become more efficient, more competitive, and more innovative – which they did.

To be sure, some businesses and investors will ignore the evidence. Yet pharmaceutical companies are reportedly already gearing up to profit from the resulting outbreak of diseases once kept in check by cooler temperatures. Shipping companies are also getting in on the act by exploring new ice-free routes through the arctic while farming interests are shifting north into the once barren areas of Siberia, Canada, and Alaska (Vencat, 2007). Additionally, sustainable energy companies are popping up like mushrooms after a spring rain, cosmetics companies are testing new products that look better under energy-efficient lighting, and other businesses have been breaking sales records by making products more efficient and more efficiently. Refurbished products and materials are a case in point (remanufacturing can cost around 60% less than creating products and materials from scratch).

General Electric's (GE) locomotive plant in Erie, Pennsylvania provides an example from the other end of the cost spectrum. Despite the fact that several of *GE*'s best customers come from nations where the price of local locomotives is 30% cheaper, *GE* is able to sell its more expensive locomotives in developing countries because its locomotives are of high quality, they're more energy efficient, they emit very low levels of pollutants, and they have an unmatched record of reliability – all of which costs more. But a combination of lower operating costs, reduced energy needs, and extended product life – as well as less waste – means that *GE* locomotives are less expensive to operate in the long run as opposed to cheap, energy-consuming alternatives that have a shorter lifespan and require constant repairs (Friedman, 2007).

Businesses that choose not to adapt their products and production processes in similar ways may find themselves facing increasing legislation that forces them to do so. For example, Australia banned most energy-wasting, incandescent light bulbs in 2010 (a move designed to save millions of dollars in energy costs and eliminate tons of CO2 emissions) and both Europe and the USA have adopted similar legislation. More robust legislative examples include the European WEEE directive (*Waste Electric and Electronic Equipment*) that took effect on August 2005 (WEEE is designed to mitigate the incineration and dumping of electronic waste) and Europe's RoHS (the *Restriction of Hazardous Substances*), which went into effect in July 2006 (RoHS bans electronic equipment containing certain levels of cadmium, lead, mercury, and other toxic substances). Further European efficiency measures include the EUP directive (*Energy Using Products*) that took effect in August of 2007 (which requires producers to design and track products according to closed-loop waste reduction practices) and the up-and-coming REACH authorization (the directive on *Registration, Evaluation, and Authorization of Chemicals*), which requires manufacturers to publicly display toxicity data and to prove that the chemicals used to make products are safe. Foreign companies that wish to do business with the EU will therefore have to change their products and production processes to meet with these directives or they may find themselves unable to penetrate a vast and profitable market (currently, one third of the world's electronics are sold in Europe).

Additional legislative moves, particularly in Germany and Japan, make many manufacturers legally responsible for their products *after* they're sold to promote reuse, recycling, and remanufacturing - and dozens more countries have initiated legislation to reduce, eliminate, or recycle packaging materials. Even the United States, which for a long time has lagged behind most of the developed world in terms of reducing waste, is taking action at both state and local levels. New York City, for example, has made it mandatory that all taxis be hybrid vehicles– a move designed to save drivers over $1,000 per month in fuel costs while reducing tons of greenhouse gases. Few people doubt that more environmental laws are on the way.

Bottom line: governments are now realizing that producing high levels of costly waste and pollutants does not equate with freedom nor is it a basic human right. Even the *Securities and Exchange Commission* (SEC) has been petitioned by representatives of several American states to force companies to reveal the actions they're taking to prepare for climate change. The belief is that investors should have the opportunity to avoid investing in companies that are ignoring the spiraling costs of waste and a changing environment.

Put another way, businesses that heed the signs and adopt waste elimination and resource-life extension in their business model stand a better chance of survival than those that do not.

For More Information

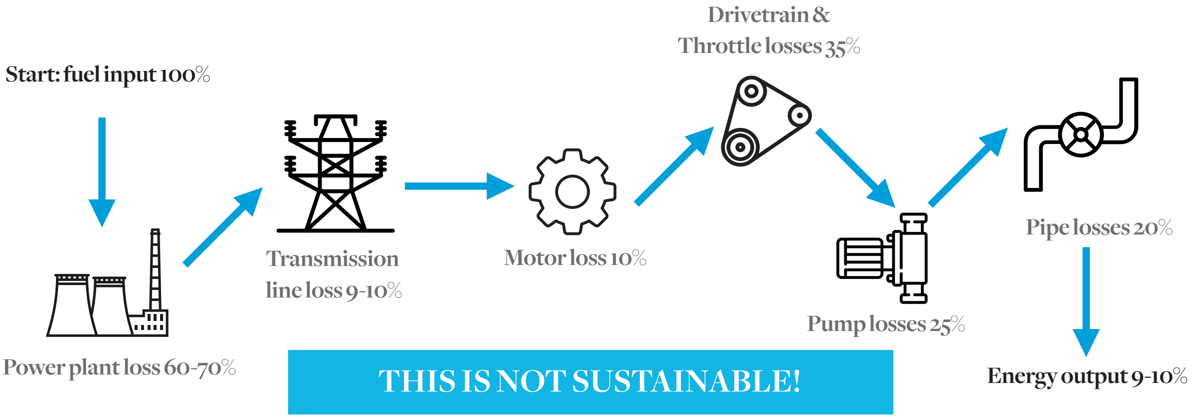
Three years after I started the research for this book, I stopped everything in order to write about how businesses can change to cope with, and profit from, the above mentioned problems. And there is no doubt that solutions to these problems are leading to superior products, substantial cost savings, increases in profits, better work and workplace quality, and rising employment.

For a free copy of the book that resulted from this research (titled: The Sustainable Business), go to www.efmd.org and click on 'Research', then click on 'The Sustainable Business'. The organizations involved in distributing this free book and it related materials (videos, workbooks, syllabus models, etc…) use the following JPEG's to promote this initiative:

It's not just energy; every process in every work system contains waste, and since waste is defined as 'not achieving 100% of purchases and investments', a sustainable business works to eliminate waste in all its forms and prevent it from returning.

Understanding Sustainability A Lesson in Waste

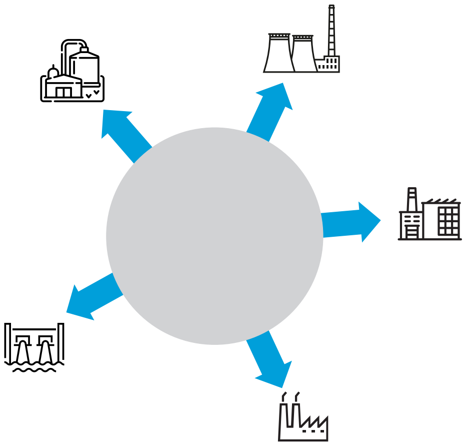
Accumulating inefficiencies in a typical industrial pumping system



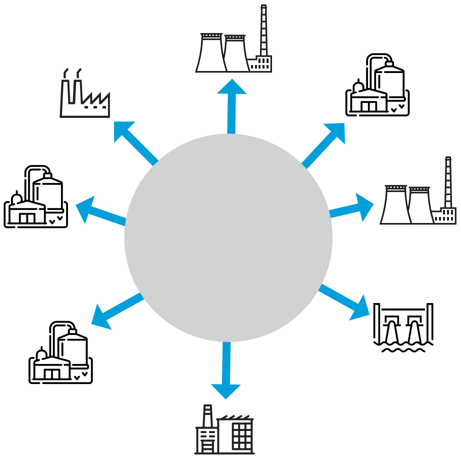
Fact: Increases in material consumption combined with the world's finite resource supplies means that the ability of industries, businesses, and regions to do more with less is not only a key competitive advantage, it will soon be a leading attribute (and indicator) of long-term economic success

Sustainability - benefits for infrastructure

If businesses apply basic sustainability concepts to improve their profitability...
(waste elimination and resource-life extension)



...then almost any region can attract more businesses (which creates jobs) without needing more resources or major infrastructure expansion.



Focus on action instead of discussion and you will get results!

Fact:

Every successful business sustainability program begins with waste elimination (waste elimination and resource-life extension)

Waste is defined as:

Not achieving 100% of purchases and investments.

Examples of waste include: physical waste (garbage), over-buying, pollution, non-optimal resource use,customers that do not return, poor employee training, costly systems and processes, wasted time, and countless other expensive scenarios that burden business and create future problems

Every successful business sustainability program begins with waste elimination!

But please note the following:

1. Waste elimination (cost saving and pollution control) on its own isn't enough because no business can survive simply by saving money.
2. To succeed, businesses must make money, which is why resource-life extension (circular economics or CE) must also be incorporated.
3. With resource-life extension (CE), the smaller "loop" the greater the economic advantage and the more local the job creation tends to be.
4. Educating managers is not enough: if this information is not made freely available to everyone (i.e: the people who don't attend conferences and whose employers don't - or won't - provide adequate training), it will be much more difficult for businesses to move toward a sustainable future.

FREE! For Business Schools and Business Training Programs Introductory Videos that Explain Basic Sustainability Concepts!

What is
SUSTAINABILITY?

Video 1. What is Sustainability (CIPS and EFMD)

Provides an overview of sustainability with a brief history, then introduces basic terminolgy including an introduction to closed-loop economics (the circular economics (the circular economy).

SUSTAINABILITY
and How it Applies to Every Business

Video 2. Sustainability and How it Applies in Every Business (CIPS and EFMD)

Explores how and why basic sustainability concepts are applicable in every business and industry, not just manufacturing.

APPLYING SUSTAINABILITY
IN BUSINESS:
Two Major Rules

Video 3. Applying Sustainability in Business: Two Major Rules (CIPS and EFMD)

Describes the functional 'mechanics' of sustainability and how they apply in different settings including: buildings and work areas, products, and production processes.

More information

EFMD

The Center for Industrial Productivity and Sustainability

Free download!
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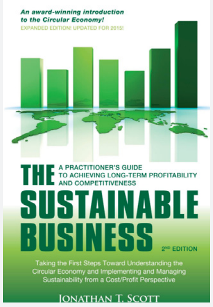
THE SUSTAINABLE BUSINESS
2nd EDITION
JONATHAN T. SCOTT

الأعمال التجارية المستدامة

ZRÓWNOWAŻONY ROZWÓJ W BIZNESIE
Jonathan T. Scott

Chapter 36
Putting It All Together

> *Advice is what we ask for when we already know the answer, but wish we didn't*
>
> Erica Jong

> *Even if you're on the right track, you'll get run over if you just sit there.*
>
> Will Rogers

One of the more interesting conclusions I came to when writing this book is that no matter where successful small businesses are found, the people who operate them often give good advice and speak with the same voice. Unfortunately, with the failure rate of new businesses as high as 90%, it seems that too many beginners choose not to listen. 'Never have so many people had so much access to so much knowledge and yet have been so resistant to learning anything,' says author Tom Nichols, author of *The Death of Expertise* (2017). He goes on to note that rejecting the advice of those in the know is just one way that a less experienced individual asserts his or her autonomy. Fueled by 'romantic notions about the wisdom of the common person or the gumption of the self-educated genius', Nichols says that too many people, when confronted with evidence that they are wrong, re-double their efforts to keep their own internal narrative consistent, no matter how clear the indications are that they're going in the wrong direction.

The result (in entrepreneurial terms) is the assumption that what happened to someone else's business will not happen to mine – a mindset that often boils down to pride, ignorance, or arrogance.

Two Analogies

To illustrate the process of building a successful business, two analogies were suggested by contributing entrepreneurs for this book. The first analogy was inspired by a treatise written in the first century by Marcus Vitruvius Pollio. Titled *De Architectura* (*On Architecture*), Pollio's groundbreaking work states that the proper design of buildings is based upon good symmetry and that symmetry arises from proportion. Proportion (according to *De Architectura*) consists of ensuring that smaller units act in unison with the overall structure. In other words, *every piece of a functional building - no matter how small or seemingly insignificant – must support the totality and balance of the entire structure as a whole*. A business is no exception. From the laying of the foundation to its operations, a strong business relies on symbiotic pieces that fit together and work in unison with the business's intended customer base.

Note however, that because customer wants and needs change, the type of business a successful entrepreneur builds can end up being somewhat different than what was envisioned on paper. In other words, at some point most successful businesses undertake an evolutionary journey -- which brings us to the second analogy. Charles Darwin is often credited with the phrase, 'survival of the fittest', but these words are not his. Instead, Darwin put forth the notion that an organism's *survival depends upon an ability to adapt to change*.

The Five Components of a Successful Business

After collecting the wisdom of hundreds of entrepreneurs, it appears that almost all of the pieces that constitute successful business operations can be placed under five categories:

1. Personal Maturity and Growth
2. The Ability to Serve Customers
3. Good Management
4. Results-Producing Marketing and Selling, and,
5. Quality Products or Merchandise

It does not seem to matter how these categories are arranged (they are certainly not arranged above in order of importance). All five overlap or are inter-linked to such an extent that it would be difficult - if not impossible - to claim that one is more important than another. But keep in mind that the absence of one category, or a weakness in one, is enough to bring down a business.

To be sure, sometimes a weakness in one area can be, *in the short-term* and under the right circumstances, compensated by strength in another area. But only in the short-term. Indeed, that's how beginners and inexperienced entrepreneurs get by. Experienced business owners, however, know that they can't hope to compete in the *long-term* this way.

Put differently, if a person is shipwrecked on a desert island he or she needs food, shelter, and water. Whichever factor is in the shortest supply limits survival. Having more of one will not compensate for the lack of another (e.g.: having twice as much food and shelter will not make up for a lack of water).

As a Canadian shop owner put it, 'Be patient, work hard, keep your eye on the ball, keep learning, and you'll eventually get where you want to go. That's when the real work begins.'

In other words, there is no finish line. Following is a consolidated list of the most often-repeated advice given by the hundreds of entrepreneurs I spoke with. I can't think of a better way to conclude this book.

Recap: Advice from the Pros (and the country where the advice came from)

- Don't enter a field, industry, or product market that does not interest you. (Belgium)
- Don't think of business as a way to get rich, but rather as a means of enriching yourself. Success flows from passion. (USA)
- Don't be complacent and don't procrastinate. Success in business demands the taking of risks. (UK and Australia)
- Know your product and its industry. Begin with an idea you can handle and keep your service levels high. (South Africa)
- Try to think about where you and your business will be in five, ten, twenty, or even thirty years. This will help you avoid complacency. (USA)
- Believe in yourself. Work hard and keep your promises. (South Africa)
- Do a lot of research before taking the plunge. (UK)
- Write down your goals and ambitions and use them to stay on track. (Russia)
- A good business plan is everything. Take the time to develop a solid one. (Belgium)
- Include the cost of loans and other debts in your business forecast. (France)
- Be courageous, optimistic, serious, and tenacious. (Belgium)
- Never stop developing your skills. Remain alert to environmental changes. (Belgium)
- Take the time to relax, unwind, and nurture yourself from time to time. Your business will be all the better for it. (Germany)

- Be 100% committed before beginning any business venture. (USA and Australia)
- Thoroughly research the demand of your product. Knowing whether demand is low or high helps reduce risk. (Belarus)
- Consider working for someone else in a business or industry in order to gain experience before taking a leap into a similar business or industry. (Poland and USA)
- Ensure that your idea and its set-up agree with your personality, your sense of risk, your values, and your level of ethics. (Australia)
- Start modestly. If you think you need a lot of money to start a business you may be thinking too big. Don't grab for the brass ring at one go. Start out small and grow. (Belgium)
- If you have a good idea and have thoroughly researched and developed it, dive in – even if the idea seems weird. Just be sure you have an airtight business plan first. (UK)
- Understand that being a prosperous business owner can mean working 16 or 18 hours a day. Hard work is the key to resolving most business problems. (Belgium and the UK)
- Don't expect success to happen overnight. Success takes time. (Belarus)
- Make certain your name is in some way present in the name of your company (South Africa).

- If you are not good with numbers, consider hiring a professional accountant to look over the books of an exiting business before you buy it. Hiring the services of a qualified professional may be money well spent. (Denmark)
- Starting a solid business means starting with enough capital. (Russia)
- Qualify for a home equity loan and apply for new credit cards before leaving a full-time job to start a business. Credit is much more difficult to obtain after you leave a full-time job. (Canada)
- Try to keep at least 3-6 months worth of cash on hand (on top of your start-up costs) to help you through any unforeseen crisis (Poland).
- Prepare for money losses in advance by starting with enough capital from several reliable sources rather than just one. (Belarus)
- Hire a good accountant. (Ireland)
- Pay attention to cash flow and know the difference between profit and cash. (Belgium)
- Pay your taxes on time and in full. (Australia)
- Try not to commit to huge expenses until your business has enough money coming in to justify the expenditure (Belgium, USA, and Holland)

- Serve customers the way you would like to be served. (UK)
- Make sure you offer customers up-to-date and competitive pricing. (Canada)
- Look after your customers. They are the ones who put food on your table. (Australia)
- If your business is reliant on only a few high-paying customers endeavor to find more. That way you won't be hurt if one or two leave. (Germany)
- Never underestimate the personal side of customer relationships. Learn the names of your customers. Wine and dine big clients. Send out birthday cards. Always go the extra mile. (USA)
- Train employees so that they can perform several jobs. That way, when someone is sick or unavailable (or a skilled worker is needed in a pinch), a qualified replacement will be on hand. (USA)
- Pick your staff very carefully. (Australia)
- Take the time to select and train good employees. (Belgium)
- When it comes to good employees, training is everything. (from an Irish business owner in Poland)

- Develop trust in others before giving it outright. (Russia)
- Consider offering shares to employees as a means of motivating them. (South Africa)
- Maintain a good relationship with employees. Treat them like you would your partners. In any business, commitment and cooperation between owners and operators and employees is of the utmost importance. (Poland)
- Hire skilled workers rather than family and friends. (Holland)

- Analyze the competition and ensure your business is different in some way. Then put together a solid marketing plan. You may think you have a great service or product, but if no one knows your business exists you have nothing. (South Africa)
- Make sure your business and its product have a unique attribute or selling point – something that makes them different from what the competition is offering. (Belgium)
- Keep in mind that some of the least expensive marketing and selling techniques, which usually involve face-to-face interaction or the clever use of technology, are often the most effective. (UK)
- Teach all your employees how to sell or enroll them in a selling course. The investment you make will repay itself and then some. (USA)
- Never stop analyzing, improving, and practicing your selling techniques. (Holland)

- Meetings held at breakfast are usually more productive than those held at any other time of day. (USA)
- Pay attention to warning signs. Problems and difficulties rarely spring up out of thin air. If you remain attentive and proactive the road ahead will be less rocky. (Belarus)
- Concentrate on benefits and solutions rather than negativity and problems. (Belgium)
- Don't go it alone. Just because a business is yours doesn't mean that you know everything. (France)
- Don't rush to conclusions or judgments when making decisions. Estimate your abilities realistically. (USA)
- Focus on the goals of your business and avoid distractions. Equally, don't spread out to thinly by trying to do or be more than you can manage. Grow sensibly. (Belarus)
- Surround yourself with talented and knowledgeable people – then listen to them. (Belgium)
- Learn to rely on skills and experience rather than favorable circumstances. (Russia)
- Learn from your mistakes. Don't give up. When you fall (which you will at some point), get up, brush yourself off, and try again. (Belarus)
- Never skimp on quality. (Belgium)
- Be strategic instead of tactical. Develop and test your ideas so that your capital is used wisely. (Australia)
- Always think in the long-term. (USA)
- Don't skimp, don't rush, don't cut corners and don't try to do everything yourself. If you do any of these you're just cheating yourself. (Canada)
- Buy the best equipment and materials that your business can afford. You'll save money in the long run. (Germany)

- Use your time wisely. You can always make more money, but you can never make more time. (Denmark)

- Regularly keep track of the money-makers and the money losers in your business. If you can't squeeze cash from the money losers, get rid of them. (Germany)
- Invest in new technologies instead of spending too much time and money dealing with old ones. (France and Poland)
- Practice makes perfect, but if you need too much practice consider hiring a professional. (USA and Canada)
- In business there are no victims, only volunteers. (USA)
- As you grow, don't be afraid to hire people with more experience and don't avoid letting go of those who can't cope. Jon Huntsman, who started what became a billion-dollar business (the *Huntsman Corp*.) from scratch, says that it takes a different type of individual to run a company at different stages. As he took his company from zero sales to the $100-million mark, he replaced many people from his original team because they couldn't handle the pressure. At the billion-dollar mark he had to do the same thing again for the same reasons (Bisoux, 2005). (USA)
- In business, never think that you're finished – in reality, you've only just begun. (Holland)

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